STATE OF ILLINOIS

Single Audit Report

For the Year Ended June 30, 2012

Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

Independent Auditors' Report on the
Schedule of Expenditures of Federal Awards

Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of the Schedule of Expenditures
of Federal Awards Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133,
Audits of States, Local Governments, and Non-Profit Organizations

STATE OF ILLINOIS

Single Audit Report

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Other Reports Issued Applicable to the Single Audit:

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2012 was issued under separate cover.

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Year Ended June 30, 2012 was issued under separate cover by the Auditor General of the State of Illinois.

STATE OF ILLINOIS

Single Audit Report

Summary

The compliance audit testing performed in this audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, Single Audit Act Amendments of 1996, and OMB Circular A-133.

Auditors' Reports

The auditors' report on compliance and on internal control applicable to each major program contain one scope limitation and qualifications for the following programs:

Scope Limitation
Employment Service Cluster

Qualifications (Noncompliance):
Justice Assistance Grant Cluster
Unemployment Insurance
Airport Improvement Program
Highway Planning and Construction Cluster
High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
Surface Transportation – Discretionary Grants for Capital Investment
State Energy Program
Weatherization Assistance for Low-Income Persons
Title I, Part A Cluster
Special Education Cluster
Improving Teacher Quality State Grants
School Improvement Grants Cluster
Education Jobs Fund
Immunization Cluster
Temporary Assistance for Needy Families Cluster
Low-Income Home Energy Assistance Program
Foster Care – Title IV-E
Adoption Assistance
Medicaid Cluster
Children's Health Insurance Program

Summary of Audit Findings

Number of audit findings:	This audit	Prior audit
This audit	91	101
Repeated audit findings	63	71
Prior findings implemented or not repeated	38	32

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Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

Honorable William G. Holland
Auditor General
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the accompanying schedule of expenditures of federal awards of the State of Illinois (the Schedule) for the year ended June 30, 2012. This Schedule is the responsibility of the State of Illinois' management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Also as described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Educational Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the U.S. Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* Audit Guide.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Illinois, as described above, for the year ended June 30, 2012, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013 on our consideration of the State of Illinois' internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

May 31, 2013

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
U.S. Department of Agriculture					
Plant and Animal Disease, Pest Control, and Animal Care	10.025			$ 1,965	$ 168
ARRA - Aquaculture Grants Program	10.086			61	—
Voluntary Public Access and Habitat Incentive Program	10.093			58	58
Market News	10.153			4	—
Inspection Grading and Standardization	10.162			6	—
Market Protection and Promotion	10.163			69	—
Specialty Crop Block Grant Program - Farm Bill	10.170			439	166
Organic Agriculture Research and Extension Initiative	10.307			100	—
Rural Community Development Initiative	10.446			14	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475			6,902	—
Cooperative Extension Service	10.500			54	11
SNAP Cluster:					
Supplemental Nutrition Assistance Program (SNAP)	10.551	*	$ 3,077,936		—
ARRA - Supplemental Nutrition Assistance Program (SNAP)	10.551	*	2		—
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	*	113,794		7,700
ARRA - State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	*	34		174
Total SNAP Cluster				3,191,766	
Child Nutrition Cluster:					
School Breakfast Program	10.553		111,173		110,270
National School Lunch Program	10.555		438,496		436,724
Special Milk Program for Children	10.556		2,679		2,679
Summer Food Service Program for Children	10.559		10,461		9,944
Total Child Nutrition Cluster				562,809	
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	*		217,853	217,808
Child and Adult Care Food Program	10.558			130,938	129,353
State Administrative Expenses for Child Nutrition	10.560			6,560	325
Commodity Supplemental Food Program	10.565			7,291	7,291
Emergency Food Assistance Cluster:					
Emergency Food Assistance Program (Administrative Costs)	10.568		3,200		2,680
Emergency Food Assistance Program (Food Commodities)	10.569		17,158		17,158
Total Emergency Food Assistance Cluster				20,358	
WIC Farmers' Market Nutrition Program (FMNP)	10.572			378	117
Team Nutrition Grants	10.574			204	204
Senior Farmers Market Nutrition Program	10.576			684	—
ARRA - WIC Grants to States	10.578			13	—
Child Nutrition Discretionary Grants Limited Availability	10.579			3	—
Fresh Fruit and Vegetable Program	10.582			3,781	3,769
Cooperative Forestry Assistance	10.664			1,326	856
Schools and Roads Cluster:					
Schools and Roads Grants to States	10.665		92		92
Total Schools and Roads Cluster				92	
Urban and Community Forestry Program	10.675			270	200
Forest Legacy Program	10.676			232	—
Forest Stewardship Program	10.678			328	—
Soil and Water Conservation	10.902			279	195
Wildlife Habitat Incentive Program	10.914			4	—
U.S. Department of Agriculture Total				$ 4,154,841	$ 947,942
U.S. Department of Commerce					
Coastal Zone Management Administration Awards	11.419			51	—
Public Safety Interoperable Communications Grant Program	11.555			2,241	2,231
ARRA - Broadband Technology Opportunities Program (BTOP)	11.557			19,113	4,829
U.S. Department of Commerce Total				$ 21,405	$ 7,060
U.S. Department of Defense					
Procurement Technical Assistance For Business Firms	12.002			669	479
Payments to States in Lieu of Real Estate Taxes	12.112			796	796
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113			869	—
Military Construction, National Guard	12.400			15,121	—
National Guard Military Operations and Maintenance (O&M) Projects	12.401			16,884	—
ARRA - National Guard Military Operations and Maintenance (O&M) Projects	12.401			293	—
National Guard Civilian Youth Opportunities	12.404			7,465	—
Troops-to-Teachers/Spouses-to-Teachers	12.XXX			182	—
U.S. Department of Defense Total				$ 42,279	$ 1,275

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STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
U.S. Department of Housing and Urban Development					
CDBG - Entitlement Grants Cluster:					
Community Development Block Grants/Entitlement Grants	14.218		$ 49		$ —
Total CDBG - Entitlement Grants Cluster				$ 49	
CDBG - State-Administered Small Cities Program Cluster:					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	*	51,040		44,467
Community Development Block Grants, Recovery Act	14.255	*	1,600		1,566
Total CDBG - State-Administered Small Cities Program Cluster				52,640	
Emergency Shelter Grants Program	14.231			406	211
Supportive Housing Program	14.235			115	—
Housing Opportunities for Persons with AIDS	14.241			539	447
Homelessness Prevention and Rapid Re-Housing Program, Recovery Act	14.257			4,138	4,007
Fair Housing Assistance Program State and Local	14.401			820	—
Housing Voucher Cluster:					
Section 8 Housing Choice Vouchers	14.871		640		—
Total Housing Voucher Cluster				640	
U.S. Department of Housing and Urban Development Total				$ 59,347	$ 50,698
U.S. Department of Interior					
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250			2,944	—
Abandoned Mine Land Reclamation (AMLR) Program	15.252			16,008	—
Fish & Wildlife Cluster:					
Sport Fish Restoration	15.605		7,225		2,337
Wildlife Restoration	15.611		9,873		2,240
Total Fish & Wildlife Cluster				17,098	
Fish and Wildlife Management Assistance	15.608			54	—
Coastal Wetlands Planning, Protection and Restoration Act	15.614			164	18
Cooperative Endangered Species Conservation Fund	15.615			99	98
Clean Vessel Act	15.616			42	—
Firearm and Bow Hunter Education and Safety Program	15.626			249	—
Partners for Fish and Wildlife	15.631			1	—
Landowner Incentive	15.633			186	186
State Wildlife Grants	15.634			3,596	1,132
Endangered Species - Candidate Conservation Action Funds	15.660			13	—
Great Lakes Restoration	15.662			4,410	3,019
Historic Preservation Fund Grants In Aid	15.904			1,198	177
Outdoor Recreation Acquisition, Development and Planning	15.916			1,125	1,125
State Memorandum Agreement - Crab Orchard	15.XXX			48	—
U.S. Department of Interior Total				$ 47,235	$ 10,332
U.S. Department of Justice					
Sexual Assault Services Formula Program	16.017			258	206
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202			4	—
Juvenile Accountability Block Grants	16.523			1,499	1,208
Education, Training, and Enhanced Services to End Violence Against and Abuse of Women with Disabilities	16.529			42	39
Juvenile Justice and Delinquency Prevention Allocation to States	16.540			1,584	939
Missing Children's Assistance	16.543			361	—
Title V Delinquency Prevention Program	16.548			85	85
State Justice Statistics Program for Statistical Analysis Centers	16.550			72	—
National Criminal History Improvement Program (NCHIP)	16.554			27	13
National Institute of Justice Research, Evaluation, and Development Projects Grants	16.560			266	—
Crime Victim Assistance	16.575			17,645	15,750
Crime Victim Compensation	16.576			1,323	—
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580			150	—
Violence Against Women Formula Grants	16.588			5,577	4,271
ARRA - Violence Against Women Formula Grants Assistance Program	16.588			1,896	1,466
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590			82	—
Residential Substance Abuse Treatment for State Prisoners	16.593			773	19
State Criminal Alien Assistance Program	16.606			6,383	—
Bulletproof Vest Partnership Program	16.607			16	—
Project Safe Neighborhoods	16.609			41	1
Public Safety Partnership and Community Policing Grants	16.710			150	—
Enforcing Underage Drinking Laws Program	16.727			606	473

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Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
Justice Assistance Grant Program Cluster:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	*	$ 10,102		$ 5,959
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Recovery Act	16.803	*	9,963		6,109
Total Justice Assistance Grant Program Cluster				$ 20,065	
Statewide Automated Victim Information Notification (SAVIN) Program	16.740			119	—
Forensic DNA Backlog Reduction Program	16.741			3,431	304
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742			769	126
Anti-Gang Initiative	16.744			136	—
Internet Crimes against Children Task Force (ICAC) Program, Recovery Act	16.800			151	—
Second Chance Act Prisoner Reentry Initiative	16.812			444	361
NCIS Act Record Improvement Program	16.813			520	—
John R. Justice Prosecutors and Defenders Incentive Act	16.816			86	—
Equitable Sharing of Federal Forfeitures	16.XXX			306	—
U.S. Department of Justice Total				$ 64,867	$ 37,329
U.S. Department of Labor					
Labor Force Statistics	17.002			2,875	—
Compensation and Working Conditions	17.005			145	—
Employment Services Cluster:					
Employment Service/Wagner-Peyser Funded Activities	17.207	*	37,857		351
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207	*	167		—
Disabled Veterans' Outreach Program (DVOP)	17.801	*	4,495		—
Local Veterans' Employment Representative Program	17.804	*	2,808		—
Total Employment Services Cluster				45,327	
Unemployment Insurance	17.225	*	3,690,996		—
ARRA - Unemployment Insurance	17.225	*	1,383,292		—
Total Unemployment Insurance Program				5,074,288	
Senior Community Service Employment Program	17.235			3,389	3,389
Trade Adjustment Assistance	17.245			10,367	10,367
Workforce Investment Act Cluster:					
WIA Adult Program	17.258	*	33,141		31,996
ARRA - WIA Adult Program	17.258	*	1,188		936
WIA Youth Activities	17.259	*	36,451		35,238
ARRA - WIA Youth Activities	17.259	*	7,501		6,979
WIA Dislocated Workers	17.260	*	18,024		8,439
ARRA - WIA Dislocated Workers	17.260	*	7,444		6,997
WIA Dislocated Worker Formula Grants	17.278	*	52,300		50,367
Total Workforce Investment Act Cluster				156,049	
WIA Pilots, Demonstrations and Research Projects	17.261			4	—
Incentive Grants WIA Section 503	17.267			979	316
Work Opportunity Tax Credit (WOTC) Program	17.271			774	—
Temporary Labor Certification for Foreign Workers	17.273			381	—
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275			2,126	2,069
WIA National Emergency Grants	17.277			2,523	2,451
Occupational Safety and Health State Program	17.503			1,109	—
Consultation Agreements	17.504			1,633	—
Mine Health and Safety Grants	17.600			283	—
U.S. Department of Labor Total				$ 5,302,252	$ 159,895
U.S. Department of Transportation					
Airport Improvement Program:					
Airport Improvement Program	20.106	*	77,830		36,808
ARRA - Airport Improvement Program	20.106	*	(263)		—
Total Airport Improvement Program				77,567	
Highway Planning and Construction Cluster:					
Highway Planning and Construction	20.205	*	1,419,470		219,127
ARRA - Highway Planning and Construction	20.205	*	75,337		38,734
Recreational Trails Program	20.219	*	2,182		—
Total Highway Planning and Construction Cluster				1,496,989	
National Motor Carrier Safety	20.218			11,857	—
Performance and Registration Information Systems Management	20.231			5	
Commercial Driver License State Programs	20.232			460	—
Commercial Vehicle Information Systems and Networks	20.237			3	—
Commercial Drivers License Information System	20.238			77	—
Railroad Research and Development	20.313			403	403
Railroad Development	20.314			457	—
Capital Assistance to States - Intercity Passenger Rail Service	20.317			904	—

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STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants:					
High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	20.319	*	$ (7,247)		—
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	20.319	*	132,882		—
Total High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants				$ 125,635	
Federal Transit Cluster:					
Federal Transit Capital Investment Grants	20.500		3,404		$ 3,404
Total Federal Transit Cluster				3,404	
Federal Transit Metropolitan Planning Grants	20.505			4,837	338
Formula Grants for Other Than Urbanized Areas:					
Formula Grants for Other Than Urbanized Areas	20.509		14,651		12,359
ARRA - Formula Grants for Other Than Urbanized Areas	20.509		5,027		5,001
Total Formula Grants for Other Than Urbanized Areas				19,678	
Transit Services Program Cluster:					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		5,189		2,726
Job Access Reverse Commute	20.516		971		788
New Freedom Program	20.521		1,129		1,004
Total Transit Services Programs Cluster				7,289	
Public Transportation Research	20.514			113	113
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523			—	—
ARRA - Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523			20	—
Highway Safety Cluster:					
State and Community Highway Safety	20.600		13,444		5,797
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		6,149		5,189
Occupant Protection Incentive Grants	20.602		4,050		268
State Traffic Safety Information System Improvements Grants	20.610		667		—
Incentive Grant Program to Prohibit Racial Profiling	20.611		269		130
Incentive Grant Program to Increase Motorcyclist Safety	20.612		324		—
Child Safety and Child Booster Seats Incentive Grants	20.613		1,055		236
Total Highway Safety Cluster				25,958	
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614			239	—
Pipeline Safety Program Base Grants	20.700			1,446	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703			592	541
ARRA - Surface Transportation Discretionary Grants for Capital Investment	20.932	*		37,678	259
National Infrastructure Investments	20.933			1,082	—
U.S. Department of Transportation Total				$ 1,816,693	$ 333,225
U.S. Department of the Treasury					
Mortgage Foreclosure Mitigation Assistance	21.000			244	—
U.S. Department of Treasury Total				$ 244	$ —
Equal Employment Opportunity Commission					
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002			1,539	—
Equal Employment Opportunity Commission Total				$ 1,539	$ —
General Services Administration					
Election Reform Payments	39.011			1,480	1,233
General Services Administration Total				$ 1,480	$ 1,233
National Endowment for the Arts					
Promotion of the Arts-Grants to Organizations and Individuals	45.024			99	59
Promotion of the Arts Partnership Agreements	45.025			1,053	1,053
Grants to States	45.310			5,870	4,300
Laura Bush 21st Century Librarian Program	45.313			217	28
National Endowment for the Arts Total				$ 7,239	$ 5,440

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STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures	Passed-through to subrecipients (Unaudited)
U.S. Small Business Administration				
Statewide Broadband Infrastructure and Connectivity	59.000		$ 264	$ —
Small Business Development Center	59.037		5,130	3,220
State Trade and Export Promotion Pilot Grant Program	59.061		525	—
IL Public Libraries Access to Small Business	59.XXX		241	—
U.S. Small Business Administration Total			$ 6,160	$ 3,220
U.S. Department of Veteran's Affairs				
ARRA - Grants to States for Construction of State Home Facilities	64.005		163	—
Veterans State Domiciliary Care	64.014		378	—
Veterans State Nursing Home Care	64.015		31,780	—
All Volunteer Force Educational Assistance	64.124		1,123	—
U.S. Department of Veteran's Affairs Total			$ 33,444	$ —
U.S. Environmental Protection Agency				
State Indoor Radon Grants	66.032		317	223
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		545	—
National Clean Diesel Funding Assistance Program	66.039		367	—
State Clean Diesel Grant Program	66.040		662	—
State Environmental Justice Cooperative Agreement Program	66.312		53	—
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		480	161
State Underground Water Source Protection	66.433		308	—
Water Quality Management Planning:				
Water Quality Management Planning	66.454	$ 628		—
ARRA - Water Quality Management Planning	66.454	277		110
Total Water Quality Management Planning			905	
Capitalization Grants for Clean Water State Revolving Funds:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	94		94
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	85		85
Total Capitalization Grants for Clean Water State Revolving Funds			179	
Nonpoint Source Implementation Grants	66.460		8,938	5,283
Capitalization Grants for Drinking Water State Revolving Funds	66.468	*	64,759	63,165
Great Lakes Program	66.469		353	154
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		129	21
Beach Monitoring and Notification Program Implementation Grants	66.472		184	76
Water Protection Grants to the States	66.474		37	33
Performance Partnership Grants	66.605		20,947	50
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		44	44
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		95	—
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		367	—
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		3,163	—
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		773	—
Leaking Underground Storage Tank Trust Fund Corrective Action Program:				
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	2,701		—
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	2,967		—
Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			5,668	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		(100)	—
Alternative or Innovative Treatment Technology Research, Demonstration, Training, and Hazardous Substance Research Grants	66.813		14	
State and Tribal Response Program Grants	66.817		1,074	—
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		1,136	1,044
Environmental Education Grants	66.951		1	—
U.S. Environmental Protection Agency Total			$ 111,398	$ 70,543
U.S. Department of Energy				
State Energy Program:				
State Energy Program	81.041	* 1,406		207
ARRA - State Energy Program	81.041	* 48,284		46,860
Total State Energy Program			49,690	
Weatherization Assistance for Low-Income Persons:				
Weatherization Assistance for Low-Income Persons	81.042	* 8,776		8,389
ARRA - Weatherization Assistance for Low-Income Persons	81.042	* 50,733		48,043
Total Weatherization Assistance for Low-Income Persons			59,509	

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STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
Renewable Energy Research and Development	81.087			$ 76	$ —
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant:					
States and Tribal Concerns, Proposed Solutions	81.106			14	—
State Energy Program Special Projects:					
State Energy Program Special Projects	81.119		$ 289		289
ARRA - State Energy Program Special Projects	81.119		209		209
Total State Energy Program Special Projects				498	
Electricity Delivery and Energy Reliability, Research, Development and Analysis:					
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		440		304
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		341		—
Total Electricity Delivery and Energy Reliability, Research, Development and Analysis				781	
ARRA - Energy Efficient Appliance Rebate Program (EEARP)	81.127			837	837
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128			6,942	—
U.S. Department of Energy Total				$ 118,347	$ 105,138
U.S. Department of Education					
Adult Education - Basic Grants to States	84.002			21,042	19,523
Title I, Part A Cluster:					
Title I Grants to Local Educational Agencies	84.010	*	532,892		509,615
Title I Grants to Local Educational Agencies, Recovery Act	84.389	*	71,834		71,834
Total Title I, Part A Cluster				604,726	
Migrant Education State Grant Program	84.011			1,889	1,803
Title I State Agency Program for Neglected and Delinquent Children	84.013			442	—
Special Education Cluster (IDEA):					
Special Education - Grants to States	84.027	*	527,527		525,731
Special Education - Preschool Grants	84.173	*	15,485		15,286
Special Education - Grants to States, Recovery Act	84.391	*	94,470		94,429
Special Education - Preschool Grants, Recovery Act	84.392	*	4,329		4,329
Total Special Education Cluster (IDEA)				641,811	
Student Financial Assistance Programs:					
Federal Family Education Loan Program	84.032G	*	217,331		—
Total Student Financial Assistance Programs				217,331	
Career and Technical Education - Basic Grants to States	84.048			35,885	18,855
Leveraging Educational Assistance Partnership	84.069			273	—
Vocational Rehabilitation Cluster:					
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	*	92,881		16,314
Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	84.390	*	11,638		—
Total Vocational Rehabilitation Cluster				104,519	
Rehabilitation Services Service Projects	84.128			156	18
Migrant Education Coordination Program	84.144			29	29
Rehabilitation Services Client Assistance Program	84.161			14	—
Independent Living State Grants Cluster:					
Independent Living State Grants	84.169		646		—
Independent Living State Grants, Recovery Act	84.398		90		—
Total Independent Living State Grants Cluster				736	
Independent Living Services for Older Individuals Who are Blind Cluster:					
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177		1,470		89
Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399		174		—
Total Independent Living Services for Older Individuals Who are Blind Cluster				1,644	
Early Intervention Services (IDEA) Cluster:					
Special Education Grants for Infants and Families	84.181		17,319		9,028
Total Early Intervention Services (IDEA) Cluster				17,319	
Safe and Drug-Free Schools and Communities National Programs	84.184			241	—
Byrd Honors Scholarships	84.185			1,010	—
Safe and Drug-Free Schools and Communities State Grants	84.186			281	137
Supported Employment Services for Individuals with Significant Disabilities	84.187			595	595
Education for Homeless Children and Youth Cluster:					
Education for Homeless Children and Youth	84.196		2,332		2,014
Education for Homeless Children and Youth, Recovery Act	84.387		234		234
Total Education of Homeless Children and Youth Cluster				2,566	
Even Start State Educational Agencies	84.213			292	292
Fund for the Improvement of Education	84.215			(11)	—
Assistive Technology	84.224			583	583
Tech-Prep Education	84.243			964	—
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265			126	—
GOALS 2000 - State and Local Education Systemic Improvement Grants	84.276			(45)	—
Charter Schools	84.282			2,330	2,329
Twenty-First Century Community Learning Centers	84.287			31,581	31,409
State Grants for Innovative Programs	84.298			(24)	—

(Continued)

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
Education Technology State Grants Cluster:					
Education Technology State Grants	84.318		$ 1,821		$ 1,820
Education Technology State Grants, Recovery Act	84.386		7,504		7,108
Total Educational Technology State Grants Cluster				$ 9,325	
Special Education State Personnel Development	84.323			1,373	1,164
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			245	245
Advanced Placement Program	84.330			1,875	1,875
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331			78	—
Comprehensive School Reform Demonstration	84.332			(13)	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334			1,955	983
Title I Accountability	84.348			(84)	—
Reading First State Grants	84.357			(248)	—
Rural Education	84.358			1,109	1,107
English Language Acquisition Grants	84.365			16,333	15,396
Mathematics and Science Partnerships	84.366			4,397	4,252
Improving Teacher Quality State Grants	84.367	*		79,586	79,038
Grants for Enhanced Assessment Instruments	84.368			128	—
Grants for State Assessments and Related Activities	84.369			14,592	—
Striving Readers	84.371			265	98
Statewide Data Systems Cluster:					
Statewide Data Systems	84.372		1,467		—
Statewide Data Systems, Recovery Act	84.384		3,972		—
Total Statewide Data Systems Cluster				5,439	
School Improvement Grants Cluster:					
School Improvement Grants	84.377	*	829		—
School Improvement Grants, Recovery Act	84.388	*	24,367		24,367
Total School Improvement Grants Cluster				25,196	
College Access Challenge Grant Program	84.378			4,535	—
Education Jobs Fund, Recovery Act	84.410	*		114,857	114,857
Race to the Top, Recovery Act	84.413			2,284	—
U.S. Department of Education Total				$ 1,971,532	$ 1,576,786
National Archives and Records Administration					
National Historical Publications and Records Grants	89.003			45	31
National Archives and Records Administration Total				$ 45	$ 31
Election Assistance Commission					
Help America Vote College Program	90.400			268	—
Help America Vote Act Requirements Payments	90.401			4,226	3,435
Election Assistance Commission Total				$ 4,494	$ 3,435
U.S. Department of Health and Human Services					
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041			158	158
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042			531	531
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043			670	670
Aging Cluster:					
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		14,124		14,124
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		20,636		18,475
Nutrition Services Incentive Program	93.053		5,397		5,397
Total Aging Cluster				40,157	
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048			322	308
National Family Caregiver Support, Title III, Part E	93.052			4,944	4,944
Public Health Emergency Preparedness	93.069			22,261	13,679
Environmental Public Health Emergency Response	93.070			904	546

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STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
Medicare Enrollment Assistance Program	93.071			$ 153	$ 153
Lifespan Respite Care Program	93.072			39	39
Emergency System for Advance Registration of Volunteer Health Professionals	93.089			58	58
Guardianship Assistance	93.090			9,558	—
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			104	100
Food and Drug Administration Research	93.103			165	—
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104			2,544	2,108
Maternal and Child Health Federal Consolidated Programs	93.110			253	230
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			1,305	98
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130			300	108
Injury Prevention and Control Research and State and Community Based Programs	93.136			1,557	1,486
Projects for Assistance in Transition from Homelessness (PATH)	93.150			2,570	2,565
Health Program for Toxic Substances and Disease Registry	93.161			97	14
Grants to States for Loan Repayment Program	93.165			300	300
Disabilities Prevention	93.184			136	21
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197			(1)	—
Family Planning Services	93.217			6,159	4,910
State Capacity Building	93.240			407	—
State Rural Hospital Flexibility Program	93.241			707	707
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243			5,113	4,601
Immunization Cluster:					
Immunization Grants	93.268	*	$ 111,049		1,221
ARRA - Immunization	93.712	*	90		84
Total Immunization Cluster				111,139	
Adult Viral Hepatitis Prevention and Control	93.270			122	—
Substance Abuse and Mental Health Services Access to Recovery	93.275			4,158	120
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283			12,122	7,323
State Partnership Grant Program to Improve Minority Health	93.296			155	141
Small Rural Hospital Improvement Grant Program	93.301			501	501
ARRA - State Loan Repayment Program	93.402			152	152
ARRA - State Primary Care Offices	93.414			190	—
Ruminant Feed Ban Support Project	93.449			359	—
Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program	93.505			2,133	1,785
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507			195	—
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511			323	—
Affordable Care Act (ACA) Aging and Disability Resource Center	93.517			180	180
Affordable Care Act (ACA) Medicare Improvements for Patients and Providers	93.518			677	677
Affordable Care Act (ACA) Consumer Assistance Program Grants	93.519			389	—
Centers for Disease Control - Affordable Care Act (ACA) Communities Putting Prevention to Work	93.520			67	67
Affordable Care Act (ACA) Building Epidemiology, Laboratory and Health Information Systems	93.521			920	258
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525			1,678	—
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants	93.531			141	29
The Patient Protection and ACA authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	93.544			199	10
Promoting Safe and Stable Families	93.556			13,319	10,621
Temporary Assistance for Needy Families Cluster:					
Temporary Assistance for Needy Families	93.558	*	581,544		158,986
ARRA Emergency Contingency Fund for Temporary Assistance to Needy Families (TANF) State Program	93.714	*	360		—
Total Temporary Assistance for Needy Families Cluster				581,904	
Child Support Enforcement	93.563	*		140,937	22,641
Refugee and Entrant Assistance State Administered Programs	93.566			6,055	3,833
Low-Income Home Energy Assistance	93.568	*		197,698	195,316
Community Services Block Grants Cluster:					
Community Services Block Grant	93.569		32,284		30,571
ARRA - Community Services Block Grant	93.710		(1)		—
Total Community Services Block Grants Cluster				32,283	

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STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
Child Care Development Funds Cluster:					
Child Care and Development Block Grant	93.575	*	$ 74,903		$ 74,903
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	*	128,171		117,670
ARRA Child Care and Development Block Grant	93.713	*	377		321
Total Child Care Development Funds Cluster				$ 203,451	
Refugee and Entrant Assistance Discretionary Grants	93.576			1,408	1,384
Refugee and Entrant Assistance Targeted Assistance Grants	93.584			1,309	1,309
State Court Improvement Program	93.586			919	622
Community Based Child Abuse Prevention Grants	93.590			1,120	—
Grants to States for Access and Visitation Programs	93.597			318	293
Services to Victims of a Severe Form of Trafficking	93.598			15	—
Chafee Education and Training Vouchers Program (ETV)	93.599			1,721	—
Head Start Cluster:					
Head Start	93.600		4,009		3,554
ARRA - Head Start	93.708		791		300
Total Head Start Cluster				4,800	
Assets for Independence Demonstration Program	93.602			(310)	—
Mentoring Children of Prisoners	93.616			135	135
Voting Access for Individuals with Disabilities Grants to States	93.617			134	134
Developmental Disabilities Basic Support and Advocacy Grants	93.630			2,317	1,026
Children's Justice Grants to States	93.643			647	—
Child Welfare Services State Grants	93.645			10,812	—
Child Welfare Research Training or Demonstration	93.648			787	—
Adoption Opportunities	93.652			318	—
Foster Care - Title IV-E:					
Foster Care - Title IV-E	93.658	*	202,022		—
ARRA - Foster Care - Title IV-E	93.658	*	55		—
Total Foster Care - Title IV-E				202,077	
Adoption Assistance:					
Adoption Assistance	93.659	*	83,458		—
ARRA - Adoption Assistance	93.659	*	3		—
Total Adoption Assistance				83,461	
Social Services Block Grant	93.667	*		75,972	22,456
Child Abuse and Neglect State Grants	93.669			1,358	—
Child Abuse and Neglect Discretionary Activities	93.670			1,267	416
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	93.671			2,911	2,583
Chafee Foster Care Independence Program	93.674			5,388	—
ARRA - Preventing Healthcare-Associated Infections	93.717			318	295
ARRA - State Grants to Promote Health Information Technology	93.719			1,825	—
ARRA - Prevention and Wellness - State, Territories, and Pacific Islands	93.723			1,639	1,441
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725			427	330
Children's Health Insurance Program	93.767	*		220,161	—
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768			576	—
Medicaid Cluster:					
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	93.720	*	1		
State Medicaid Fraud Control Units	93.775	*	7,676		—
State Survey and Certification of Health Care Providers and Suppliers	93.777	*	31,133		345
Medical Assistance Program	93.778	*	6,690,269		107,831
Total Medicaid Cluster				6,729,079	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779			3,823	1,174
Money Follows the Person Rebalancing Demonstration	93.791			2,054	—
National Bioterrorism Hospital Preparedness Program	93.889			12,211	10,542
Grants to States for Operation of Offices of Rural Health	93.913			174	6
HIV Care Formula Grants	93.917			43,400	35,382
Healthy Start Initiative	93.926			1,710	1,555
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938			272	—
HIV Prevention Activities Health Department Based	93.940			3,524	1,612
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943			1,339	815
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944			558	70

(Continued)

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency/Program or Cluster	Federal CFDA #		Amounts (expressed in thousands) Expenditures		Passed-through to subrecipients (Unaudited)
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946			$ 193	$ —
Block Grants for Community Mental Health Services	93.958			12,788	12,142
Block Grants for Prevention and Treatment of Substance Abuse	93.959	*		63,285	59,133
National All Schedules Prescription Electronic Reporting Grant	93.975			102	—
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977			1,715	275
Cooperative Agreements for State Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988			(49)	—
Preventive Health and Health Services Block Grant	93.991			1,677	532
Maternal and Child Health Services Block Grant to the States	93.994			16,995	13,816
U.S. Department of Health and Human Services Total				$ 8,931,598	$ 985,248
Corporation for National and Community Service					
State Commissions	94.003			395	214
Learn and Serve America School and Community Based Programs	94.004			280	216
AmeriCorps	94.006			7,724	7,720
Program Development and Innovation Grants	94.007			61	61
Training and Technical Assistance	94.009			63	63
Corporation for National and Community Service Total				$ 8,523	$ 8,274
Social Security Administration					
Disability Insurance/SSI Cluster:					
Social Security - Disability Insurance	96.001		$ 82,957		—
Total Disability Insurance/SSI Cluster				82,957	
Social Security Work Incentives Planning and Assistance Program	96.008			100	100
Social Security Administration Total				$ 83,057	$ 100
U.S. Department of Homeland Security					
Urban Areas Security Initiative	97.008			1,128	1,126
Boating Safety Financial Assistance	97.012			1,920	—
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023			386	—
Flood Mitigation Assistance	97.029			42	42
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	*		57,987	51,346
Hazard Mitigation Grant	97.039			1,832	1,830
National Dam Safety Program	97.041			167	—
Emergency Management Performance Grants	97.042			12,747	4,983
Cooperating Technical Partners	97.045			587	323
Pre-Disaster Mitigation	97.047			1,383	1,383
Emergency Operations Centers	97.052			332	332
Interoperable Emergency Communications	97.055			933	933
Port Security Grant Program	97.056			200	
Homeland Security Cluster:					
Homeland Security Grant Program	97.067	*	44,662		38,118
Total Homeland Security Cluster				44,662	
Rail and Transit Security Grant Program	97.075			13,965	13,965
Buffer Zone Protection Program (BZPP)	97.078			1,371	1,371
Earthquake Consortium	97.082			27	—
Real ID Program	97.089			346	—
Homeland Security Biowatch Program	97.091			2,520	—
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111			2,325	2,325
U.S. Department of Homeland Security Total				$ 144,860	$ 118,077
Total expenditures of federal awards				$ 22,932,879	$ 4,425,281

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.
*Denotes Major Program

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

(1) Summary of Significant Accounting Policies

- ***Reporting Entity***

The schedule of expenditures of federal awards includes all federal award programs administered by the State of Illinois (the State), except for component units, for the fiscal year ended June 30, 2012. The State's financial reporting entity is described in Note 1B of the State's Comprehensive Annual Financial Report.

The entities listed below are Discretely Presented Component Units in the State's Comprehensive Annual Financial Report, which received federal financial assistance for the year ended June 30, 2012. Each of these entities is subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The federal transactions of the following entities are not reflected in this Schedule:

University of Illinois
Illinois State University
Northern Illinois University
Chicago State University
Western Illinois University
Southern Illinois University
Governors State University
Northeastern Illinois University
Eastern Illinois University
Illinois Finance Authority
Illinois Conservation Foundation
Illinois Housing Development Authority
Illinois Medical District Commission

Additionally, the federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission under the Federal Family Education Loan program, are not reflected in the schedule of expenditures of federal awards for the year ended June 30, 2012. IDAPP has elected to have a separate lender compliance audit performed on an annual basis in accordance with the U.S. Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* Audit Guide.

- ***Basis of Presentation***

The schedule of expenditures of federal awards presents total federal awards expended for each individual federal program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the catalog are identified by Federal agency number followed by (.XXX).

(Continued)

- ***Basis of Accounting***

  The expenditures for each of the federal financial assistance programs are presented in the schedule of expenditures of federal awards on a cash basis. Under the cash basis of accounting, expenditures are reported when paid by the State.

(2) Description of Major Federal Award Programs

The following is a brief description of the major programs presented in the schedule of expenditures of federal awards:

U.S. Department of Agriculture

SNAP Cluster: Supplemental Nutrition Assistance Program (CFDA No. 10.551) / State Administrative Matching Grants for Supplemental Nutrition Assistance Program (CFDA No. 10.561)

The objective of the Supplemental Nutrition Assistance program (SNAP) is to improve the nutrition levels of low-income households by ensuring access to nutritious, healthful diets through the provision of nutrition education and nutrition assistance through the issuance of monthly benefits for the purchase of food at authorized retailers and to provide federal financial aid to State agencies for costs incurred to operate the program. The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

Special Supplemental Nutrition Program for Women, Infants and Children (CFDA No. 10.557)

The objective of this program is to provide supplemental nutritious foods, nutrition education, and referrals to healthcare for low-income persons during critical periods of growth and development.

U.S. Department of Housing and Urban Development

Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228) / Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (Recovery Act Funded) (CFDA No. 14.255)

The primary objective of this program is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low- and moderate-income.

U.S. Department of Justice

Justice Assistance Grant Program Cluster: Edward Byrne Memorial Justice Assistance Program (CFDA No. 16.738) / Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (CFDA No. 16.803)

The objective of this program is to support all components of the criminal justice system from multijurisdictional drug and gang task forces to crime prevention and domestic violence programs, courts, corrections, treatment, and justice information sharing initiatives. JAG funded projects may address crime through the provision of services directly to individuals and/or communities and by improving the effectiveness and efficiency of criminal justice systems, processes, and procedures.

U.S. Department of Labor

Employment Service Cluster: Employment Service/Wagner-Peyser Funded Activities (CFDA No. 17.207) / Disabled Veterans' Outreach Program (DVOP) (CFDA No. 17.801) / Local Veterans' Employment Representative Program (CFDA No. 17.804)

The objectives of these programs is to assist persons to secure employment and workforce information by providing a variety of job search assistance and information services without charge to job seekers; to provide intensive services to meet the employment needs of disabled and other eligible veterans with maximum emphasis in meeting the employment needs of those who are economically or educationally disadvantaged, including homeless veterans and veterans with barriers to employment; and to conduct outreach to employers to facilitate employment to assist veterans in gaining and retaining employment.

Unemployment Insurance (CFDA No. 17.225)

The objective of this program is to administer a program of unemployment insurance for eligible workers through Federal and state cooperation; to administer payment of trade adjustment assistance; to administer disaster unemployment assistance; and to administer unemployment compensation for Federal employees and ex-service members.

Workforce Investment Act Cluster: Workforce Investment Act Adult Program (CFDA No. 17.258) / Workforce Investment Act Youth Activities (CFDA No. 17.259) / Workforce Investment Act Dislocated Worker Formula Grant (CFDA No. 17.278)

The objective of these programs is to prepare workers, particularly disadvantaged, low-skilled, and underemployed adults, for good jobs by providing job search assistance and training; to help low income youth acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers and productive adulthood; and to reemploy dislocated workers through job search assistance and/or training that builds their occupational skills to meet labor market needs.

U.S. Department of Transportation

Airport Improvement Program (CFDA No. 20.106)

The objective of this program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.

Highway Planning and Construction Cluster: Highway Planning and Construction (CFDA No. 20.205) / Recreational Trails Program (CFDA No. 20.219)

The objective of this program is to assist states in planning and developing an integrated, interconnecting transportation systems by constructing and rehabilitating the National Highway System, including Interstate highways; for transportation improvements to most other public roads; to provide aid in the repair of Federal-aid roads and streets following disasters; to foster safe highway design; and to replace or rehabilitate deficient or obsolete bridges. This program also provides transportation engineering services for planning; design, construction, and rehabilitation of the highways and bridges providing access to federally owned lands.

The objective of the Recreational Trails Program is to provide funds to states to develop and maintain recreational trails and trail-related facilities for both non-motorized and motorized recreational trail uses.

High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (CFDA No. 20.319)

The objective of this program is to assist in financing the capital costs of facilities, infrastructure, and equipment necessary to provide or improve high speed rail and intercity passenger rail service.

Surface Transportation Discretionary Grants for Capital Investment (CFDA No. 20.932)

The objective of this program is to provide grants for surface transportation projects that will have a significant impact on the Nation, a metropolitan area, or a region in order to preserve and create jobs and promote economic recovery and to invest in transportation infrastructure that will provide long-term economic benefits.

U.S. Environmental Protection Agency

Capitalization Grants for Drinking Water State Revolving Funds (CFDA No. 66.468)

The objective of this program is for states to capitalize their Drinking Water State Revolving Funds which will provide a long-term source of financing for the costs of drinking water infrastructure.

U.S. Department of Energy

State Energy Program (CFDA No. 81.041)

The objectives of this program are to reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities; to reduce the total energy use of the eligible entities; and to improve energy efficiency in the transportation, building, and other sectors.

Weatherization Assistance for Low-Income Persons (CFDA No. 81.042)

The objective of this program is to improve home energy efficiency for low-income families through the most cost-effective measures possible.

U.S. Department of Education

Title I, Part A Cluster: Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389)

The purpose of this program is to help local education agencies and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards.

Special Education Cluster: Special Education – Grants to States (CFDA No. 84.027) / Special Education – Preschool Grants (CFDA No. 84.173) / Special Education Grants to States, Recovery Act (CFDA No. 84.391) / Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392)

The objectives of these programs are to provide grants to states to assist them in providing a free appropriate public education to all children with disabilities; and to assist states in providing a free appropriate public education to preschool disabled children aged three through five years.

Federal Family Education Loans – Guaranty Program (CFDA No. 84.032G)

The objective of this program is to encourage lenders to make loans to students enrolled at eligible postsecondary institutions to help pay for educational expenses. The loans are insured by the State of Illinois (Illinois Student Assistance Commission) and reinsured by the Federal government.

Vocational Rehabilitation Cluster: Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA No. 84.126) / Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act (CFDA No. 84.390)

The purpose of this program is to assist states in operating a comprehensive and accountable program designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, and capabilities, so such individuals may prepare for and engage in competitive employment.

Improving Teacher Quality State Grants (CFDA No. 84.367)

The objective of this program is to provide grants to State Education Agencies on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom.

School Improvement Grants Cluster: School Improvement Grants (CFDA 84.377) / School Improvement Grants, Recovery Act (CFDA 84.388)

The objective of this program is to support competitive subgrants to local educational agencies (LEAs) that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources in order to raise substantially the achievement of students in their lowest-performing schools.

(Continued)

Education Jobs Fund (CFDA No. 84.410)

The objective of this program is to provide funds to states to assist local educational agencies in saving or creating education jobs during the 2010-2011 school year.

U.S. Department of Health and Human Services

Immunization Cluster: Immunization Grants (CFDA No. 93.268) / ARRA – Immunization (CFDA No. 93.712)

The objectives of these programs are to assist states and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases.

Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) / ARRA – Emergency Contingency Fund for TANF State Program (CFDA No. 93.714)

The objective of the TANF program is to provide assistance to needy families with children so that children can be cared for in their own home; reduce dependence of needy parents on governmental benefits by promoting job preparation, work and marriage; prevent and reduce out-of-wedlock pregnancies; and encourage the formation and maintenance of two-parent families.

The objective of the ARRA – Emergency Contingency Fund for TANF State Program is to provide economic stimulus to the nation while promoting the economic and social well being of children, youth, families, and communities.

Child Support Enforcement (CFDA No. 93.563)

The objective of this program is to enforce the support obligation owed by absent parents to their children; locate absent parents; establish paternity; and obtain child, spousal, and medical support.

Low-Income Home Energy Assistance Program (CFDA No. 93.568)

The objective of this program is to make Low-Income Home Energy Assistance Program (LIHEAP) grants available to states and other jurisdictions to assist eligible households to meet the cost of home energy. This program also provides training and technical assistance to states and other jurisdictions administering the LIHEAP block grant program.

Child Care Development Funds Cluster: Child Care and Development Block Grant (CFDA No. 93.575) / Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA No. 93.596) / ARRA – Child Care and Development Block Grant (CFDA No. 93.713)

The objectives of these programs are to make grants to states for child care assistance for low-income families and to develop child care programs and policies, to promote parental choice on child care; to provide consumer education on child care; to provide child care to parents trying to achieve independence from public assistance; and, to implement health, safety, licensing, and registration standards.

Foster Care ─ Title IV-E (CFDA No. 93.658)

The objective of this program is to help states provide safe and stable out-of-home care for children under the jurisdiction of the State until the children are returned home safely, placed with adoptive families, or placed in other planned arrangements for permanency.

Adoption Assistance (CFDA No. 93.659)

The objective of this program is to provide adoption subsidy costs for the adoption of children with special needs and who meet certain eligibility tests.

Social Services Block Grant (CFDA No. 93.667)

The objective of this program is to enable each state to provide services that best suit the individuals residing in that state in one or more of five specified social service areas.

Children's Health Insurance Program (CFDA No. 93.767)

The objective of this program is to initiate and expand child health assistance to uninsured, low-income children through assistance with obtaining health insurance benefits that meet federal requirements or by the expansion of the Medicaid program.

Medicaid Cluster: ARRA - Survey and Certification Ambulatory Surgical Center Associated Infection (ASC-HAI) Prevention Initiative (CFDA No. 93.720)/ State Medicaid Fraud Control Units (CFDA No. 93.775) / State Survey and Certification of Health Care Providers and Suppliers (CFDA No. 93.777) / Medical Assistance Program (CFDA No. 93.778)

The objective of these programs is to eliminate fraud and patient abuse in the State Medicaid programs, provide financial assistance to determine that providers and suppliers of healthcare services are in compliance with Federal regulatory health and safety standards and conditions of participation, provide payments for medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and

(Continued)

improve inspection capability and frequency for onsite surveys of Ambulatory Surgical Centers nationwide.

Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)

The purpose of this program is to provide financial assistance to states and territories to support projects for the development and implementation of prevention, treatment and rehabilitation activities directed to the diseases of alcohol and drug abuse.

U.S. Department of Homeland Security

Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

The objective of this program is to assist State and local governments in responding to and recovering from the devastating effects of disasters by providing assistance for debris removal, emergency protective measures and the repair, restoration, reconstruction or replacement of public facilities or infrastructure damaged or destroyed.

Homeland Security Cluster: Homeland Security Grant Program (CFDA No. 97.067)

The objective of this program is to address the identified planning, organization, equipment, training, and exercise needs to prevent, protect against, mitigate, respond to, and recover from acts of terrorism and other catastrophic events.

(3) Non-monetary Assistance Inventory

The State reports the following non-cash federal awards on the Schedule of Expenditures of Federal Awards:

- National School Lunch Program (CFDA No. 10.555) – Federal expenditures for this program represent the value of donated commodities received from the U.S. Department of Agriculture (USDA) and made available to approved sponsors. The commodities were valued based on USDA price lists.

- Commodity Supplemental Food Program (CFDA No. 10.565) – Federal expenditures for this program represent the value of donated commodities received from the USDA. The commodities were valued based on USDA price lists.

- Emergency Food Assistance Program (CFDA No. 10.569) – Federal expenditures for this program represent the value of donated commodities received from the USDA. The commodities were valued based on USDA price lists.

- Public Health Emergency Preparedness (CFDA No. 93.069) – Federal expenditures for this program represent the value of vaccine dispensed for the Pandemic H1N1 Influenza vaccination provided by the U.S. Department of Health and Human Services (DHHS). The commodities were valued based on DHHS price lists.

- Immunization Cluster (CFDA No. 93.268 / 93.712) – Federal expenditures for this program can either be in cash grants or represent the value of donated vaccine, personnel and other items "in lieu of cash" received from U.S. Department of Health and Human Services.

(4) Federal Loan Guarantees

The original principal balance of loans guaranteed by the Illinois Student Assistance Commission (ISAC) under Federal Family Education Loans Guaranty Program (CFDA No. 84.032G) was approximately $5,272,870,618 as of June 30, 2012. Additionally, the outstanding balance of defaulted loans held by ISAC under this program was approximately $670,956,484 as of June 30, 2012.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Expenditures of Federal Awards Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the schedule of expenditures of federal awards (the Schedule) of the State of Illinois (the State) as of and for the year ended June 30, 2012, and have issued our report thereon dated May 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Also as described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Educational Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the U.S. Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* Audit Guide.

Internal Control Over Financial Reporting

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting of the Schedule. In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule.

Our consideration of internal control over financial reporting of the Schedule was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting of the Schedule that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's schedule of expenditures of federal awards will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the State's internal control over financial reporting of the Schedule described in the accompanying schedule of findings and questioned costs in findings 12-01, 12-02, 12-03, 12-13, 12-14, and 12-58 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's schedule of expenditures of federal awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of Illinois, the management at Illinois State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 31, 2013

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Honorable William G. Holland
Auditor General
State of Illinois:

Compliance

We have audited the compliance of the State of Illinois (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2012. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The schedule of expenditures of federal awards and our audit described below does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). The schedule of expenditures of federal awards and our audit described below also do not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the U.S. Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* Audit Guide.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

Qualifications (Scope Limitation)

We were unable to obtain sufficient documentation supporting the compliance of the State of Illinois for the program compliance requirements listed below nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures.

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Employment Security	Employment Service Cluster	Reporting	12-57

Qualifications (Noncompliance)

As identified below and described in the accompanying schedule of findings and questioned costs, the State did not comply with certain compliance requirements that are applicable to certain of its major federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Illinois to comply with requirements applicable to the identified major federal programs.

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	12-02
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	12-02
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	12-02
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	12-03
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	12-03
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	12-03
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	12-04
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	12-04
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	12-04
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	12-05
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	12-13
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	12-13
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	12-14
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	12-14

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	12-15
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Period of Availability	12-15
IL Department of Children and Family Services	Temporary Assistance for Needy Families Cluster	Subrecipient Monitoring	12-32
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	12-32
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	12-32
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	12-33
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	12-34
IL Department of Public Health	Immunization Cluster	Special Tests and Provisions	12-44
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	12-49
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	12-49
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	12-49
IL State Board of Education	School Improvement Grants Cluster	Subrecipient Monitoring	12-49
IL State Board of Education	Education Jobs Fund	Subrecipient Monitoring	12-49
IL Department of Employment Security	Unemployment Insurance	Allowable Costs/Cost Principles and Eligibility	12-58
IL Department of Commerce and Economic Opportunity	Weatherization Assistance for Low Income Persons	Subrecipient Monitoring	12-62
IL Department of Commerce and Economic Opportunity	Low-Income Home Energy Assistance Program	Subrecipient Monitoring	12-62
IL Department of Commerce and Economic Opportunity	State Energy Program	Subrecipient Monitoring	12-63
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	12-64
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Procurement	12-65
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Davis Bacon	12-66
IL Department of Transportation	High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	Subrecipient Monitoring	12-74
IL Department of Transportation	Surface Transportation – Discretionary Grants for Capital Investment	Subrecipient Monitoring	12-77
IL Criminal Justice Information Authority	Justice Assistance Grant Program	Subrecipient Monitoring	12-91

In our opinion, except for the noncompliance described in the preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence described in the second preceding paragraph relating to the Employment Service Cluster program, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 12-03, 12-06 through 12-11, 12-16 through 12-31, 12-35 through 12-38, 12-41 through 12-43, 12-45 through 12-48, 12-50 through 12-56, 12-61, 12-62, 12-67 through 12-73, 12-75, 12-76, 12-78 through 12-81, 12-83 through 12-90.

Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, as findings 12-02 through 12-08, 12-12 through 12-26, 12-32 through 12-35, 12-38 through 12-42, 12-44 through 12-46, 12-49, 12-50, 12-57 through 12-59, 12-62 through 12-66, 12-68, 12-70, 12-73 through 12-75, 12-77 through 12-84, and 12-89 through 12-91 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 12-09 through 12-11, 12-27 through 12-31, 12-36, 12-37, 12-43, 12-47, 12-48, 12-51 through 12-56, 12-60, 12-61, 12-67, 12-69, 12-71, 12-72, 12-76, and 12-85 through 12-88 to be significant deficiencies.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of Illinois, the management at Illinois State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 31, 2013

(1) Summary of Auditors' Results

(a) The type of report issued by the Auditor General, State of Illinois, on the basic financial statements: **unqualified**

(b)(1) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements by the Auditor General, State of Illinois: **none reported**
Material weaknesses: **yes**

(b)(2) Significant deficiencies in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **none reported** Material weaknesses: **yes**

(c)(1) Noncompliance which is material to the basic financial statements: **yes**

(c)(2) Noncompliance which is material to the schedule of expenditures of federal awards: **no**

(d) Significant deficiencies in internal control over major programs: **yes**
Material weaknesses: **yes**

(e) The type of report issued on compliance for major programs:

Scope Limitation
Employment Service Cluster

Qualified:
Justice Assistance Grant Cluster
Unemployment Insurance
Airport Improvement Program
Highway Planning and Construction Cluster
High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
Surface Transportation – Discretionary Grants for Capital Investment
State Energy Program
Weatherization Assistance for Low-Income Persons
Title I, Part A Cluster
Special Education Cluster
Improving Teacher Quality State Grants
School Improvement Grants Cluster
Education Jobs Fund
Immunization Cluster
Temporary Assistance for Needy Families Cluster
Low-Income Home Energy Assistance Program
Foster Care – Title IV-E
Adoption Assistance
Medicaid Cluster
Children's Health Insurance Program

The opinions for all other major programs are unqualified.

(f) Any audit findings which are required to be reported under section .510(a) of OMB Circular A-133: **yes**

(g) Major programs:

U.S. Department of Agriculture
- Supplemental Nutrition Assistance Program Cluster (10.551/10.561)
- Special Supplemental Nutrition Program for Women, Infants and Children (10.557)

U.S. Department of Housing and Urban Development
- Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii (14.228/14.255)

U.S. Department of Justice
- Justice Assistance Grant Cluster (16.738/16.803)

U.S. Department of Labor
- Employment Service Cluster (17.207/17.801/17.804)
- Unemployment Insurance (17.225)
- Workforce Investment Act Cluster (17.258/17.259/17.278/17.260)

U.S. Department of Transportation
- Airport Improvement Program (20.106)
- Highway Planning and Construction Cluster (20.205/20.219)
- High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (20.319)
- Surface Transportation – Discretionary Grants for Capital Investment (20.932)

U.S. Environmental Protection Agency
- Capitalization Grants for Drinking Water State Revolving Funds (66.468)

U.S. Department of Energy
- State Energy Program (81.041)
- Weatherization Assistance for Low-Income Persons (81.042)

U.S. Department of Education
- Title I, Part A Cluster (84.010/84.389)
- Special Education Cluster (84.027/84.173/84.391/84.392)
- Federal Family Education Loans – Guaranty Program (84.032G)
- Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126/84.390)
- Improving Teacher Quality State Grants (84.367)
- School Improvement Grants Cluster (84.377/84.388)
- Education Jobs Fund (84.410)

U.S. Department of Health and Human Services

- Immunization Cluster (93.268/93.712)
- Temporary Assistance for Needy Families Cluster (93.558/93.714)
- Child Support Enforcement (93.563)
- Low-Income Home Energy Assistance Program (93.568)
- Child Care Development Funds Cluster (93.575/93.596/93.713)
- Foster Care – Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- Medicaid Cluster (93.720/93.775/93.777/93.778)
- Children's Health Insurance Program (93.767)
- Block Grants for the Prevention and Treatment of Substance Abuse (93.959)

U.S. Department of Homeland Security

- Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)
- Homeland Security Grant Program (97.067)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$44,518,805**

(i) The State did not qualify as a low-risk auditee under section .530 of OMB Circular A-133.

(2)(a) Findings related to the basic financial statements reported in accordance with *Government Auditing Standards*:

Findings related to the basic financial statements for the year ended June 30, 2012 were reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

(2)(b) Findings related to the schedule of expenditures of federal awards reported in accordance with *Government Auditing Standards*:

Finding No.	State Agency	Finding Title	Finding Type
12-01	IL Office of the Governor and IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Material weakness

In addition, the following findings which are reported as current findings and questioned costs relating to federal awards also meet the reporting requirements of *Government Auditing Standards* in relation to the schedule of expenditures of federal awards:

Finding No.	State Agency	Finding Title	Finding Type
12-02	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
12-03	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material weakness
12-13	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material weakness
12-14	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material weakness
12-58	IL Department of Employment Security	Inadequate Procedures for Follow-up of Invalid Social Security Numbers	Material weakness

Agency: Office of the Governor and Office of the State Comptroller

Federal Agency: All Federal Agencies

Finding 12-01 *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate 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. These findings have been directed primarily toward the Office of the State Comptroller (IOC) and major State agencies under the organizational structure of the Office of the Governor.

The Office of the Comptroller has made significant changes to the system used to compile financial information and agencies have submitted GAAP packages in a more timely manner; however, the State has still not solved all the problems to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post-audit program being a part of the internal control over financial reporting even though the Illinois Office of the Auditor General has repeatedly informed 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 preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

Although these SCO forms are subject to review by the IOC's financial reporting staff during the CAFR preparation process, the current process lacks sufficient internal controls at State agencies which has resulted in restatements relative to the financial statement reporting over the past several years.

Certain SCO forms are used by the IOC to collect financial information utilized in the SEFA compilation and reporting process. Internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past ten years as a result of errors identified during the external audits performed on State agencies. These problems significantly impact the preparation and completion of the SEFA. Errors and delays identified in the SEFA reporting process over the past ten years have included the following:

- ARRA expenditures were reported based on cash receipts versus expenditures for the Child Support Enforcement, CHIP, and Medicaid Cluster programs by the Illinois Department of Healthcare and Family Services in 2012.

- Expenditures were reported based on cash receipts versus expenditures for the Airport Improvement Program, Highway Planning and Construction Cluster, and High Speed Rail programs by the Illinois Department of Transportation in 2012.
- Expenditures of approximately $3,294,000 were erroneously reported for federal awards which are not subject to OMB Circular A-133 audit requirements by the Illinois Department of Commerce and Economic Opportunity. As a result, the Type A threshold was reduced by approximately $5,000 and an additional major program was identified nearly eight months after the State's fiscal year end.
- Other correcting entries were required in order to accurately state the financial information provided by various State agencies.
- Preparation of the SEFA has not been completed by the State prior to March 15th in the past ten years.

Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, **problems continue** with the State's ability to provide **accurate** and **timely** external financial reporting. Corrective action necessary to remediate these deficiencies **continues to be problematic**.

According to OMB Circular A-133 §__.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures of federal awards, and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing these conditions with the 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 in part to the State's current inability to obtain the capital funding required to acquire and implement such a system. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due in part to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

In discussing these conditions with IOC management, they stated errors and delays at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the financial statements. The IOC has the statutory authority to develop and prescribe accounting policies for the State but does not have the statutory authority to monitor adherence to these policies as performed by State agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the CAFR and the SEFA **prevents** the State from completing an audit in accordance with timelines set forth OMB Circular A-133 and may result in the suspension of federal funding. (Finding Code 12-01, 11-01, 10-01, 09-01, 08-01, 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

Recommendation:

We 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.

Office of the Governor's Response:

The Governor's Office agrees with this finding. The Governor's Office, the Governor's Office of Management and Budget (GOMB) and the Office of the Comptroller are addressing these challenges and have been working to solve some of these problems.

The Governor's Office negotiated with the General Assembly and other stakeholders and won passage of SB 3794 in order to create a statutory framework to begin to address the basic issues with the State's financial reporting capabilities. The legislation has several components. First it creates a Financial Reporting Standards Board composed of appointees of the Governor and the Comptroller. The Board is required to facilitate timely completion of financial reporting through additional training, assistance and communication among the parties involved. Second, the Board is mandated to participate in the development of a new financial accounting system for the State. We anticipate it will provide leadership and a forum for project management and collaboration going forward. Third, the bill modified the State's personnel code to allow accelerated and targeted hiring of highly skilled employees to perform financial reporting, accounting, and project management activities for the annual financial reporting cycle. These include personnel to help improve the speed of the current process as well as other professionals who will help to design and implement an overhaul of the technology and establish a unified statewide system. Governor Quinn approved the bill on August 23, 2012 at which point the bill became law and is now codified as Public Act #97-1055.

The Governor's Office is working with agencies to utilize the new authority that they have to hire staff pursuant to Public Act #97-1055. In addition, the Governor's Office and GOMB continue to work with the Department of Central Management Services to develop job descriptions to allow agencies to hire employees skilled in financial statement and single audit preparation for positions that remain subject to the Personnel Code.

GOMB and the Governor's Office have been primarily responsible for developing a plan for a statewide financial accounting system. This statewide financial accounting system would also include a grants management module to enable preparation of the Schedule of Expenditures of Federal Awards. The State's Chief Information Officer and a team of Governor's Office and GOMB representatives has reviewed the information available from work by prior consultants. Currently a request for proposals (RFP) is being developed to secure a consultant. This consultant will develop the necessary statewide accounting requirements and develop an RFP for software and implementation services to address the State's need. In addition, as a result of a September 2012 debt issuance of 10-year notes aimed at technology modernization, the State has allotted some capital money for this project. These resources will be a significant help in getting the project underway.

The Governor's Office will continue working with the agencies to improve the State's performance both in the short term and the long term.

IOC's Response:

The Office accepts the recommendation. The IOC will continue to work with the Governor's Office in their efforts to increase the quality of departmental financial information. The IOC will continue to provide training and technical assistance to State agencies and make improvements to the financial reporting system and procedures.

(3) Current Findings and Questioned Costs Relating to Federal Awards:

Finding No.	State Agency	Finding Title	Finding Type
12-02	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
12-03	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material noncompliance and material weakness
12-04	IL Department of Human Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
12-05	IL Department of Human Services	Improper TANF Beneficiary Payment	Material noncompliance and material weakness
12-06	IL Department of Human Services	Inadequate Review of OMB Circular A-133 Audit Reports	Noncompliance and material weakness
12-07	IL Department of Human Services	Failure to Follow Established Subrecipient Monitoring Procedures	Noncompliance and material weakness
12-08	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Noncompliance and material weakness
12-09	IL Department of Human Services	Inaccurate Financial Reports for the Vocational Rehabilitation Cluster	Noncompliance and significant deficiency
12-10	IL Department of Human Services	Inaccurate Financial and Performance Reports for the TANF Cluster	Noncompliance and significant deficiency
12-11	IL Department of Human Services	Failure to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
12-12	IL Department of Human Services	Inadequate Controls over Information Systems	Material weakness
12-13	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material noncompliance and material weakness
12-14	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
12-15	IL Department of Healthcare and Family Services	Failure to Pay Medical Claims within Prescribed Timeframes	Material noncompliance and material weakness
12-16	IL Department of Healthcare and Family Services	Failure to Disburse Hospital Assessment Payments in Accordance with the State Plan	Noncompliance and material weakness
12-17	IL Department of Healthcare and Family Services	Failure to Initiate, Complete, and Report Overpayments Identified in Provider Audits in a Timely Manner	Noncompliance and material weakness

(Continued)

Finding No.	State Agency	Finding Title	Finding Type
12-18	IL Department of Healthcare and Family Services	Inadequate Procedures to Monitor and Report Overpayments	Noncompliance and material weakness
12-19	IL Department of Healthcare and Family Services	Inadequate Process to Verify Procedures Billed by Provider with Beneficiaries	Noncompliance and material weakness
12-20	IL Department of Healthcare and Family Services	Failure to Update and Implement Reimbursement Rate Methodology Changes for Government-Owned Hospitals in a Timely Manner	Noncompliance and material weakness
12-21	IL Department of Healthcare and Family Services	Failure to Obtain Required Disclosures from Providers	Noncompliance and material weakness
12-22	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring of Child Support Subrecipients	Noncompliance and material weakness
12-23	IL Department of Healthcare and Family Services	Failure to Obtain Suspension and Debarment Certifications from Vendors	Noncompliance and material weakness
12-24	IL Department of Healthcare and Family Services	Failure to Verify Medicaid Eligibility for Psychiatric Hospitals	Noncompliance and material weakness
12-25	IL Department of Healthcare and Family Services	Inadequate Procedures to Monitor Agencies Operating Home and Community Based Waivers	Noncompliance and material weakness
12-26	IL Department of Healthcare and Family Services	Inadequate Procedures to Refer Fraud to the Illinois State Police Medicaid Fraud Control Unit	Noncompliance and material weakness
12-27	IL Department of Healthcare and Family Services	Failure to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
12-28	IL Department of Healthcare and Family Services	Failure to Complete Disproportionate Share Hospital (DSH) Audits within Required Timeframes	Noncompliance and significant deficiency
12-29	IL Department of Healthcare and Family Services	Failure to Amend the Public Assistance Cost Allocation Plan	Noncompliance and significant deficiency
12-30	IL Department of Healthcare and Family Services	Failure to Perform Cash Draws in Accordance with the Treasury-State Agreement	Noncompliance and significant deficiency
12-31	IL Department of Healthcare and Family Services	Inaccurate Reporting of Federal Expenditures	Noncompliance and significant deficiency
12-32	IL Department of Children and Family Services	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness

(Continued)

Finding No.	State Agency	Finding Title	Finding Type
12-33	IL Department of Children and Family Services	Missing Documentation in Adoption Assistance Case Files	Material noncompliance and material weakness
12-34	IL Department of Children and Family Services	Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis	Material noncompliance and material weakness
12-35	IL Department of Children and Family Services	Failure to Obtain Suspension and Debarment Certifications from Providers	Noncompliance and material weakness
12-36	IL Department of Children and Family Services	Failure to Perform Cash Draws in Accordance with the Treasury-State Agreement	Noncompliance and significant deficiency
12-37	IL Department of Children and Family Services	Untimely Reporting of Subawards in Accordance with FFATA	Noncompliance and significant deficiency
12-38	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and material weakness
12-39	IL Department of Children and Family Services	Inadequate Supervisory Review of Cash Management Reconciliations	Material weakness
12-40	IL Department of Children and Family Services	Inadequate Controls over Information Systems	Material weakness
12-41	IL Department on Aging	Inadequate Documentation of On-Site Monitoring of Subrecipients	Noncompliance and material weakness
12-42	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
12-43	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency
12-44	IL Department of Public Health	Inadequate Monitoring of Immunization Providers	Material noncompliance and material weakness
12-45	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
12-46	IL Department of Public Health	Inadequate Monitoring of PHEP Subrecipients	Noncompliance and material weakness
12-47	IL Department of Public Health	Failure to Investigate Provider Complaints within Required Timeframes	Noncompliance and significant deficiency
12-48	IL Department of Public Health	Inadequate Procedures to Verify Provider Licenses	Noncompliance and significant deficiency
12-49	IL State Board of Education	Inadequate Procedures for Monitoring of Subrecipients	Material noncompliance and material weakness

(Continued)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2012

Finding No.	State Agency	Finding Title	Finding Type
12-50	IL State Board of Education	Inaccurate Calculation of Title II Program Subawards	Noncompliance and material weakness
12-51	IL State Board of Education	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency
12-52	IL State Board of Education	Inadequate Process to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
12-53	IL Student Assistance Commission	Inadequate Process to Verify Unreported Loans	Noncompliance and significant deficiency
12-54	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and significant deficiency
12-55	IL Student Assistance Commission	Unapproved Investments in the Federal Fund	Noncompliance and significant deficiency
12-56	IL Student Assistance Commission	Failure to Accurately Update Borrower Records Within Required Timeframes	Noncompliance and significant deficiency
12-57	IL Department of Employment Security	Inadequate Supporting Documentation for Performance Reports	Scope limitation and material weakness
12-58	IL Department of Employment Security	Inadequate Procedures for Follow-up of Invalid Social Security Numbers	Material noncompliance and material weakness
12-59	IL Department of Employment Security	Inadequate Documentation of Controls over Information Systems	Material weakness
12-60	IL Department of Employment Security	Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports	Significant deficiency
12-61	IL Department of Employment Security	Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries	Noncompliance and significant deficiency
12-62	IL Department of Commerce and Economic Opportunity	Inadequate Process for Following Up on Monitoring Findings	Material noncompliance and material weakness
12-63	IL Department of Commerce and Economic Opportunity	Inadequate Documentation of Monitoring of Subrecipients of the State Energy Program	Material noncompliance and material weakness
12-64	IL Department of Transportation	Inadequate On-Site Monitoring of Airport Improvement Subrecipients	Material noncompliance and material weakness
12-65	IL Department of Transportation	Failure to Retain Documentation in Accordance with Federal Regulations	Material noncompliance and material weakness

(Continued)

Finding No.	State Agency	Finding Title	Finding Type
12-66	IL Department of Transportation	Failure to Obtain Certified Payrolls Prior to Contractor Payments	Material noncompliance and material weakness
12-67	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
12-68	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and material weakness
12-69	IL Department of Transportation	Failure to Follow Sampling and Testing Program for Construction Materials	Noncompliance and significant deficiency
12-70	IL Department of Transportation	Failure to Communicate ARRA Information and Requirements to Subrecipients	Noncompliance and material weakness
12-71	IL Department of Transportation	Inadequate Cash Management Procedures	Noncompliance and significant deficiency
12-72	IL Department of Transportation	Inaccurate ARRA 1512 Reports	Noncompliance and significant deficiency
12-73	IL Department of Transportation	Inadequate On-Site Monitoring of Highway Planning Program Subrecipients	Noncompliance and material weakness
12-74	IL Department of Transportation	Inadequate Monitoring of High Speed Rail Program Subrecipient	Material noncompliance and material weakness
12-75	IL Department of Transportation	Inaccurate High Speed Rail Program Financial Reports	Noncompliance and material weakness
12-76	IL Department of Transportation	Failure to Account for and Remit Interest Earned on Advance Funding	Noncompliance and significant deficiency
12-77	IL Department of Transportation	Inadequate Monitoring of TIGER Program Subrecipients	Material noncompliance and material weakness
12-78	IL Department of Transportation	Inaccurate TIGER Program Financial Reports	Noncompliance and material weakness
12-79	IL Department of Transportation	Inadequate Process for Obtaining Certified Payrolls	Noncompliance and material weakness
12-80	IL Department of Transportation	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Noncompliance and material weakness
12-81	IL Department of Transportation	Inaccurate Reporting of Federal Expenditures	Noncompliance and material weakness
12-82	IL Department of Transportation	Inadequate Controls over Information Systems	Material weakness
12-83	IL Emergency Management Agency	Inadequate Review of Subrecipient OMB Circular A-133 Reports	Noncompliance and material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2012

Finding No.	State Agency	Finding Title	Finding Type
12-84	IL Emergency Management Agency	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and material weakness
12-85	IL Emergency Management Agency	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and significant deficiency
12-86	IL Emergency Management Agency	Inadequate Process to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
12-87	IL State Police	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and significant deficiency
12-88	IL State Police	Failure to Maintain Accurate Equipment Inventory Records	Noncompliance and significant deficiency
12-89	IL Environmental Protection Agency	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
12-90	IL Governor's Office of Management and Budget	Inadequate Procedures for Amending the Treasury-State Agreement	Noncompliance and material weakness
12-91	IL Criminal Justice Information Authority	Failure to Obtain and Review Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness

(Continued)

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families Cluster
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.558/93.714 ARRA ($581,904,000)
93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-02 *Failure to Perform Eligibility Redeterminations within Prescribed Timeframes*

IDHS is not performing "eligibility redeterminations" for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF Cluster, CHIP, and Medicaid Cluster programs require the State to perform eligibility redeterminations on an annual basis. These procedures may involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our testwork over eligibility, we noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF Cluster, CHIP, and Medicaid Cluster programs. In evaluating the eligibility redetermination delinquency statistics, we noted the statistics for the CHIP and Medicaid Cluster programs appear better than they are as a result of the inadequate passive redetermination process as reported in finding 12-13. The monthly delinquency statistics by program for State fiscal year 2012 are as follows:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF Cluster			
July	3,355	45,481	7.38%
August	3,609	46,694	7.73%
September	3,702	47,626	7.77%

(Continued)

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF Cluster, cont'd			
October	3,880	48,198	8.05%
November	4,358	48,865	8.92%
December	4,716	50,021	9.43%
January	5,180	49,977	10.36%
February	5,596	49,632	11.27%
March	5,909	49,435	11.95%
April	5,765	49,113	11.74%
May	5,611	49,916	11.24%
June	4,839	50,260	9.63%
CHIP			
July	50,912	770,205	6.61%
August	48,317	771,436	6.26%
September	46,055	772,959	5.96%
October	45,372	775,851	5.85%
November	44,500	777,566	5.72%
December	44,719	779,003	5.74%
January	45,841	778,451	5.89%
February	47,070	778,487	6.05%
March	50,775	780,316	6.51%
April	51,926	781,128	6.65%
May	52,487	781,954	6.71%
June	52,686	781,853	6.74%
Medicaid Cluster			
July	68,488	450,263	15.21%
August	70,722	452,061	15.64%
September	70,844	453,887	15.61%
October	72,273	456,305	15.84%
November	74,018	457,431	16.18%
December	77,780	460,373	16.89%
January	81,484	462,013	17.64%
February	84,547	463,462	18.24%
March	92,958	464,960	19.99%
April	94,357	466,194	20.24%
May	95,836	467,759	20.49%
June	92,059	468,695	19.64%

(Continued)

In addition, during our testwork of 50 TANF Cluster, 65 CHIP, and 125 Medicaid Cluster eligibility files selected for testwork, we noted redeterminations were not completed within required time frames for two TANF Cluster, four CHIP and nine Medicaid Cluster cases. Delays in performing redeterminations ranged from three to 67 months after the required timeframe.

Beneficiary payments selected in our samples totaled $19,895, $10,716, and $60,600 for the TANF Cluster, CHIP, and Medicaid Cluster programs, respectively. Payments made on behalf for beneficiaries of the TANF Cluster, CHIP and Medicaid Cluster programs totaled $91,985,000, $208,669,000 and $6,275,740,000, respectively, during the year ended June 30, 2012.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated June 2012, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid Cluster, CHIP, and TANF Cluster programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure eligibility redeterminations are performed in accordance with program requirements.

In discussing these conditions with IDHS officials, they stated that the Department has absorbed a steady increase in caseload and a decrease in staff.

Failure to properly perform eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 12-02, 11-02, 10-03, 09-03, 08-03, 07-10, 06-03, 05-18, 04-15, 03-17)

Recommendation:

We 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.

IDHS Response:

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

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Agriculture (USDA)
U.S. Department of Health and Human Services (USDHHS)

Program Name: Supplemental Nutrition Assistance Program Cluster
Temporary Assistance for Needy Families Cluster
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 10.551/10.561 ($3,191,766,000)
93.558/93.714ARRA ($581,904,000)
93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-03 *Failure to Properly Maintain and Control Case File Records*

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

IDHS is the State agency responsible for performing eligibility determinations for the federal public welfare assistance programs. IDHS has established a series of local offices throughout the State at which eligibility determinations and redeterminations are performed and documented. The eligibility intake processes for each of the programs identified above require case workers to obtain and review supporting documentation including signed benefits applications, copies of source documents reviewed in verifying information reported by applicants, and other information. Although most of this information is entered into the electronic case record, IDHS also maintains manual paper files which include the source documents required to determine eligibility for its federal programs.

During our testwork, we 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 our review of case files at five separate local offices, we noted the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. We also noted 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. We selected 10 TANF eligibility case records from each of the five separate local offices (50 total) and noted eight case records could not be located for our testing.

In addition, during our testwork over case files selected in our testwork relative to the TANF Cluster, CHIP, and Medicaid Cluster programs, we noted several delays in receiving case files due to the fact that case files had been transferred between local offices as a result of beneficiaries moving between service areas. We also noted several missing eligibility case files as described below:

Case Type	Number of Cases Missing	Number of Cases Tested	Total Amount of Payments for Missing Cases	Total Amount of Payments for Cases Tested
TANF Cluster	3	50	$2,513	$19,895
CHIP	6	65	$796	$10,716
Medicaid Cluster	3	125	$34,276	$69,696

Finally, IDHS could also not locate two TANF Cluster case files selected for testwork with respect to the child support non-cooperation and penalty for refusal to work special tests and provisions.

Payments made on the behalf of beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs were approximately $3,081,441,000, $91,985,000, $208,669,000 and $6,275,740,000 respectively, during the year ended June 30, 2012.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated June 2012, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated that the finding was caused by inadequate staffing numbers and insufficient room for proper filing and storage.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs. (Finding Code 12-03, 11-03, 10-04, 09-04, 08-04, 07-11)

Recommendation:

We 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.

IDHS Response:

The Department agrees with the recommendation. Given our current fiscal, staffing, and space constraints, the Department continues to place a high priority on proper case file maintenance. The Department is now utilizing a document management system that is capturing a portion of the information that was previously printed and stored in the paper case file, and now stored electronically. This is assisting in the reduction of the overwhelming size and amount of paper files in the offices.

(Continued)

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families Cluster
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.558/93.714 ARRA ($581,904,000)
93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-04 *Missing Documentation in Beneficiary Eligibility Files*

IDHS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our test work of 50 TANF Cluster, 65 CHIP, and 125 Medicaid Cluster beneficiary payments, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions during our testwork:

- In two TANF Cluster eligibility case files (with cash assistance payments sampled of $932), IDHS could not locate the redetermination application completed and signed by the beneficiary. TANF cash assistance paid to these beneficiaries during the year ended June 30, 2012 totaled $9,604.
- In two TANF Cluster eligibility case files (with cash assistance payments sampled of $521), IDHS could not locate the required Responsibility Service Plan completed and signed by the beneficiary. TANF cash assistance paid to these beneficiaries during the year ended June 30, 2012 totaled $6,170.
- In 21 CHIP and 19 Medicaid case files (with medical payments sampled of $5,395 and $9,765, respectively), IDHS could not locate the redetermination application completed and signed by the beneficiary. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2012 were $492,956 and $414,801 for the CHIP and Medicaid programs, respectively.
- In 12 CHIP and seven Medicaid case files (with medical payments sampled of $4,755 and $7,300, respectively), IDHS could not locate adequate documentation evidencing income and asset verification performed. In lieu of collecting copies of paystubs to verify income, caseworkers verbally confirmed income information, relied on clients handwritten notes, or used income verified on previous applications. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2012 were $249,727 and $236,560 for the CHIP and Medicaid programs, respectively.
- In two CHIP case files (with medical payments sampled of $62), DHS could not locate adequate documentation of the social security number of the beneficiary being verified. Medical payments

made on behalf of those beneficiaries under CHIP were $126,283, for the year ended June 30, 2012.

- In two CHIP and two Medicaid case files (with medical payments sampled of $2,261 and $31, respectively), IDHS could not locate adequate documentation of citizenship or residence verification of the beneficiary. Medical payments made on behalf of those beneficiaries under CHIP and Medicaid were $220,442 and $2,955, for the year ended June 30, 2012.
- In one CHIP and one Medicaid case file (with a medical payment sampled of $739 and $31, respectively), IDHS could not provide adequate documentation that cross match verifications had been performed with regard to the beneficiary's personal information. Medical payments made on behalf of this beneficiary under CHIP and Medicaid were $217,874 and $77,202, for the year ended June 30, 2012.
- In four Medicaid case files (with medical payments sampled of $3,570), IDHS could not provide adequate documentation that the beneficiary assigned their right to collect medical benefit payments to the State of Illinois. Medical payments made on behalf of those beneficiaries under Medicaid were $30,716, for the year ended June 30, 2012.
- For one Medicaid case, the State improperly made medical assistance payments on behalf of a beneficiary that was granted temporary medical benefits on June 24, 2011 until a disability assessment could be performed completed by IDHS. However, after the beneficiary was determined not be eligible on September 19, 2011, IDHS did not terminate the recipients medical benefits until November 4, 2011 because system limitations would not allow immediate termination of benefits. As a result, medical claims continued to be incurred on behalf of the beneficiary. Medical assistance payments made on the behalf this beneficiary during the period of ineligibility were $345. The payment selected in our sample for this beneficiary was $7.
- For one CHIP case, IDHS improperly excluded an individual family member's weekly earnings of $750 in completing the eligibility determination completed for a family. Medical assistance payments made on the behalf this beneficiary for the year ended June 30, 2012 were $4,051. The payment selected in our sample for this beneficiary was $9.

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. Therefore all information necessary to establish and support the client's eligibility for the period was available; however, the respective application and/or source documentation related to the redetermination/income verification procedures performed including evidence of case worker review and approval could not be located.

Beneficiary payments selected in our samples totaled $19,895, $10,716, and $60,600 for the TANF Cluster, CHIP, and Medicaid Cluster programs, respectively. Payments made on behalf for beneficiaries of the TANF Cluster, CHIP and Medicaid Cluster programs totaled $91,985,000, $208,669,000 and $6,275,740,000, respectively, during the year ended June 30, 2012.

In addition, we selected 40 TANF cases to test for compliance with the penalty for refusal to work case files special test and noted IDHS could not locate the Responsibility and Services Plan (RSP) completed and signed for one TANF beneficiary. TANF cash assistance paid to this beneficiary during the year ended June 30, 2012 totaled $6,660.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under

federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated June 2012, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid Cluster and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated that lack of adequate staff to properly file documentation contributed to the deficiencies noted.

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. (Finding Code 12-04, 11-04, 10-06, 09-06, 08-08, 07-19, 06-16, 05-30, 04-18, 03-20, 02-26, 01-15)

Recommendation:

We 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.

IDHS Response:

The Department partially agrees with the recommendation. We will continue to ensure staff understands the importance of proper and accurate filing processes. A growing caseload coupled with the inability to hire additional staff presents the potential for paper filing errors and backlog. The Department is currently utilizing a document management system that captures a portion of the information that is currently printed and placed in a paper file.

Specifically, we agree with nine of the ten dot points in the finding. The ninth dot point refers to a case in which the State improperly made medical assistance payments. The medical payments made by the Illinois Department of Healthcare and Family Services on behalf of the client on the case in question were appropriate and allowable. The IDHS Client Assessment Unit (CAU) issued a decision on September 14, 2011 which necessitated the denial of the case, which was appropriately receiving temporary medical benefits at the time. On September 19, 2011, IDHS denied the case based on the CAU decision. The DHS processing schedules dictate the effective date of an action, based on the date the action is taken. On September 19, 2011, an action taken on the case in question would have an effective month of November 2011. DHS policy, in WAG 17-03-03 states, "……the last date of temporary medical benefits is the last day of the month before the current processing month." Therefore, the last date of temporary

medical benefits for the case in question – October 31, 2011 - was correct, and no improper payment was made.

Auditors' Comment:

We understand the limitations of the systems used by IDHS in its eligibility processes and that certain policies have been established to accommodate those system limitations; however, since the beneficiary was determined to be ineligible for medical benefits in September 2011, benefit payments claimed for federal reimbursement after the determination was made are not allowable costs.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families Cluster

CFDA # and Program Expenditures: 93.558/93.714 ARRA ($581,904,000)

Award Numbers: See schedule of award numbers

Questioned Costs: $113

Finding 12-05 *Improper TANF Beneficiary Payment*

IDHS made an improper payment to a beneficiary of the Temporary Assistance for Needy Families (TANF) Cluster program.

During our testwork of TANF Cluster program beneficiary payments, we selected 50 eligibility files to review for compliance with eligibility requirements and to determine that the appropriate benefits were paid. We noted one payment (in the amount of $113) made to a beneficiary selected for our testwork was improperly calculated as the result of a child being incorrectly included in the family when determining the benefit amount. Upon further review, we noted the benefit amount was subsequently corrected by IDHS on a prospective basis; however, the overpayment identified in our sample had not been calculated, recouped, or returned to the USDHHS as of the date of our testing (October 2012).

Beneficiary payments selected in our sample totaled $19,895. Payments made on behalf of beneficiaries of the TANF Cluster program totaled $91,985,000 during the year ended June 30, 2012.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

In accordance with the OMB Circular A-133 Compliance Supplement, dated June 2012, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plan requires payments to be made to eligible beneficiaries in accordance with payment levels established within the State Plan.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated that the finding was due to caseworker error.

Failure to properly calculate benefit payments may result in unallowable costs being charged to the TANF Cluster. (Finding Code 12-05)

Recommendation:

We recommend IDHS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determinations and payments are properly made.

IDHS Response:

The Department agrees with the recommendation. The error that caused the finding was an isolated incident, and a correction was made on the same day as the error. The caseworker learned of a birth at which time the baby was added to a TANF case. The baby was added to an incorrect case, however the case names were very similar in that the first names were identical, and the last names nearly the same. The caseworker immediately realized the mistake, and the newborn was deleted from the incorrect case and added to the correct case, all on the same day.

The overpayment was established as a receivable on 7/30/2012 for the claim period of 7/11 thru 7/11 in the amount of $113. The overpayment occurred because the caseworker incorrectly added another child to the TANF case. There is no SNAP overpayment.

Although the client continues to receive SNAP and medical, she has not received TANF since August 2012. The current balance of the claim remains $113. Because the client no longer receives TANF, recoupment of the TANF overpayment cannot be executed at this time. Should the client begin receiving TANF, recoupment of the overpayment will begin. According to the DHS Bureau of Collections, the billing process has begun, and eventually the overpayment will be referred to the Office of the Comptroller for the offsetting of State warrants as well as to a private collection agency. TANF overpayments are not eligible for federal offset.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Agriculture (USDA)
U.S. Department of Education (USDE)
U.S. Department of Health and Human Services (USDHHS)

Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
Vocational Rehabilitation Cluster
Temporary Assistance for Needy Families Cluster
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 10.557 ($217,853,000)
84.126/84.390ARRA ($104,519,000)
93.558/93.714ARRA ($581,904,000)
93.575/93.596/93.713ARRA ($203,451,000)
93.667 ($75,972,000)
93.959 ($63,285,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-06 *Inadequate Review of OMB Circular A-133 Audit Reports*

IDHS did not adequately review OMB Circular A-133 audit reports received from its subrecipients for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Vocational Rehabilitation (VR) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Fund (Child Care) Cluster, Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs on a timely basis.

Subrecipients who receive more than $500,000 in federal awards are required to submit an OMB Circular A-133 audit report to IDHS. The Office of Contract Administration is responsible for reviewing these reports and working with program personnel to issue management decisions on any findings applicable to IDHS programs. A desk review checklist is used to document the review of the OMB Circular A-133 audit reports.

We selected a total sample of 200 subrecipients (40 from each program) to review from the above programs. During our review of a sample of 200 subrecipient OMB Circular A-133 audit desk review files, we noted IDHS did not notify two subrecipients of the results of A-133 audit desk reviews or issue management decisions on reported findings within six months of receiving the audit reports.

IDHS' subrecipient expenditures under the federal programs for the year ended June 30, 2012 were as follows:

Program	Total Fiscal Year 2012 Subrecipient Expenditures	Total Fiscal Year 2012 Program Expenditures	%
WIC	$217,808,000	$217,853,000	99.9%
VR Cluster	16,314,000	104,519,000	15.6%
TANF Cluster	158,986,000	581,904,000	27.3%
Child Care Cluster	192,894,000	203,451,000	94.8%
Title XX	22,456,000	75,972,000	29.6%
SAPT	59,133,000	63,285,0000	93.4%

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, a pass-though entity is required to 1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing the desk review process with IDHS officials, they stated that lack of adequate systems and staff to perform adequate review of OMB Circular A-133 audit reports contributed to the discrepancy noted.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. Additionally, failure to issue management decisions within six months of receiving OMB Circular A-133 audit reports results in noncompliance with federal regulations. (Finding Code 12-06, 11-08)

Recommendation:

We recommend IDHS establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained and properly reviewed in a reasonable timeframe, (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133, and (3) follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

IDHS Response:

The Department agrees with the recommendation. The Department has contracted the review of the audit reports to ensure timely and thorough review of the A-133 Single Audit Reports. The Office of Contract Administration is enhancing its review process for A-133 reports to ensure subrecipient A-133 audit reports are obtained and properly reviewed in a reasonable timeframe, management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133, and follow-up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Agriculture (USDA)
U.S. Department of Education (USDE)
U.S. Department of Health and Human Services (USDHHS)

Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
Vocational Rehabilitation Cluster
Temporary Assistance for Needy Families Cluster
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 10.557 ($217,853,000)
84.126/84.390ARRA ($104,519,000)
93.558/93.714ARRA ($581,904,000)
93.575/93.596/93.713ARRA ($203,451,000)
93.667 ($75,972,000)
93.959 ($63,285,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-07 *Failure to Follow Established Subrecipient Monitoring Procedures*

IDHS did not follow its established policies and procedures for monitoring subrecipients of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Vocational Rehabilitation (VR) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Fund (Child Care) Cluster, Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs.

IDHS has implemented procedures whereby program staff perform periodic on-site and desk reviews of IDHS subrecipient compliance with regulations applicable to the federal programs administered by IDHS. Generally, these reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. IDHS' policies require the subrecipient to respond to each finding by providing a written corrective action plan. Additionally, IDHS performs reviews of expenditure reports submitted by subrecipients. IDHS subrecipient monitoring procedures are subject to the review and approval of a supervisor.

During our testwork over on-site review procedures performed for 200 subrecipients (40 for each program) of the WIC, VR Cluster, TANF Cluster, Child Care Cluster, Title XX, and SAPT programs, we noted IDHS did not follow its established on-site monitoring procedures as follows:

- One subrecipient of the SAPT program did not submit additional corrective action information requested by IDHS in a timely manner. The requested information was submitted 196 days after its due date and IDHS could not provide evidence that follow up procedures had been performed to obtain the information from this subrecipient.
- Three subrecipients of the VR Cluster program did not submit corrective action plans for fiscal or programmatic on-site reviews performed. IDHS could not provide evidence that follow up procedures had been performed to obtain corrective action plans from these subrecipients.
- Three subrecipients of the VR Cluster did not receive timely notification (within 60 days) of the results of programmatic on-site reviews. Delay in reporting review findings to these subrecipients ranged from 73 to 120 days after the onsite review procedures were conducted.
- Seven subrecipients of the VR Cluster program did not receive timely communication from IDHS of the results of their on-site programmatic monitoring reviews. IDHS could not provide evidence that review findings were ever communicated to these subrecipients.
- One subrecipient of the VR Cluster program and one subrecipient of the Title XX program were required to have on-site monitoring reviews performed in fiscal year 2012 based on IDHS's planned monitoring schedule; however, reviews were not performed for these subrecipients.
- Two programmatic monitoring review files for subrecipients of the VR Cluster program did not contain evidence that a supervisory review had been performed.

Additionally, we noted IDHS did not perform reviews of expenditure reports submitted by its subrecipients in accordance with its established process. Specifically, we noted expenditure reports selected for testing do not appear to have been reviewed by IDHS personnel within 60 days for three subrecipients of the VR Cluster program. Delays in reviewing and approving the expenditure forms ranged from 64 days to 141 days.

Amounts passed through to subrecipients of the WIC, VR Cluster, TANF Cluster, Child Care Cluster, Title XX, and SAPT programs during the year ended June 30, 2012 totaled $217,808,000, $16,314,000, $158,986,000, $192,894,000, $22,456,000, and $59,133,000, respectively.

According to OMB Circular A-133__.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor fiscal controls.

In discussing these conditions with IDHS officials, they stated that lack of staff and changes in the staff responsible for monitoring these contracts resulted in on-site reviews not being completed and various supporting elements (cover letters, and follow-up related to corrective action plans) not being accessible.

Failure to adequately perform and document on-site monitoring reviews of subrecipients and notify subrecipients of findings in a timely manner may result in subrecipients not properly administering the Federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-07, 11-09)

Recommendation:

We recommend IDHS ensure programmatic on-site reviews are performed and documented for subrecipients in accordance with established policies and procedures. In addition, we recommend IDHS review its process for reporting and following up on findings relative to subrecipient on-site reviews to ensure timely corrective action is taken.

IDHS Response:

The Department agrees with the recommendation. The Department will enhance its process to ensure all on-site reviews are completed and all documentation maintained in accordance with established policies and procedures.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Vocational Rehabilitation Cluster

CFDA # and Program Expenditures: 84.126/84.390ARRA ($104,519,000)

Award Numbers: See schedule of award numbers

Questioned Costs: $2,051

Finding 12-08 *Failure to Determine Eligibility In Accordance with Program Regulations*

IDHS did not determine the eligibility of beneficiaries under the Vocational Rehabilitation Cluster program in accordance with federal regulations.

During our testwork of Vocational Rehabilitation Cluster program beneficiary payments, we selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions in our testwork:

- For one case, IDHS could not provide the customer financial analysis form signed by the case worker and beneficiary; however, unsigned electronic forms were provided from the case management system. Payments made on the behalf of this beneficiary during the year ended June 30, 2012 were $60. The payments selected in our sample for this beneficiary were $60.

- For two cases, IDHS did not complete the Individualized Plan for Employment (IPE) within 90 days after eligibility was determined. Additionally, for one of the cases, IDHS did not perform a timely redetermination of eligibility. Payments made on the behalf of these beneficiaries during the year ended June 30, 2012 were $934. The payments selected in our sample for these beneficiaries were $140.

- For one case, IDHS could not provide the original certification of eligibility signed by the case worker and beneficiary; however, an unsigned electronic certification of eligibility was provided from the case management system. Payments made on the behalf of this beneficiary during the year ended June 30, 2012 were $1,057. The payment selected in our sample for this beneficiary was $158.

Payments made to beneficiaries of the Vocational Rehabilitation Cluster program totaled $20,586,000 during the year ended June 30, 2012.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure beneficiary eligibility determinations are performed and documented in accordance with program regulations.

In discussing these conditions with IDHS officials, they stated that field staff responsible for determining eligibility failed to obtain extensions of the eligibility determination that would require more than 60 days, or failed to print copies of documents completed in the web-based case management system and obtain the proper signatures as required.

Failure to properly determine and document the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 12-08, 11-11)

Recommendations:

We recommend IDHS review its process for performing eligibility determinations and consider changes necessary to ensure eligibility determinations are made and documented in accordance with program regulations.

IDHS Response:

The Department agrees with the recommendation. The Department will review its process for performing eligibility determinations and consider changes necessary to ensure eligibility determinations are made and documented in accordance with program regulations.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Vocational Rehabilitation Cluster

CFDA # and Program Expenditures: 84.126/84.390 ARRA ($104,519,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-09 *Inaccurate Financial Reports for the Vocational Rehabilitation Cluster*

IDHS did not prepare accurate periodic financial reports for the Vocational Rehabilitation Cluster program.

IDHS is required to prepare quarterly financial status (SF-425) reports for each of its open Vocational Rehabilitation Cluster grant awards. In addition, IDHS is required to prepare an annual RSA-2 Program Cost (RSA-2) report for the program as a whole. During our testwork, we noted errors in the reports selected for testwork as described below.

During our testwork over two quarterly financial status reports for each open grant award, we noted IDHS improperly reported required financial information as follows:

Grant Year	Period Ended	Report Line Items	Reported Amount	Actual Amount	Difference
2011	3/31/2012	Federal share of unliquidated obligations	$19,924,733	$23,866,569	($3,941,836)
2011	3/31/2012	Program income expended in accordance with the addition alternative	$127,559	$240,828	($113,269)
2011	9/30/2011	Federal share of expenditures	$16,026,226	$16,153,626	$(127,400)
2011	9/30/2011	Indirect Expense Base	$52,217,601	$52,945,601	($728,000)
2012	3/31/2012	Program income expended in accordance with the addition alternative	$222	$6,830	($6,608)

Additionally, during our testwork over the RSA-2 report for the federal fiscal year ended September 30, 2011, we noted IDHS inaccurately reported the following line items:

Expenditure Line Item	Reported Expenditures	Actual Expenditures	Difference
Amount of current Fiscal Year Section 110 Allotment carried over to next FY	$98,815,927	$98,688,527	$127,400

(Continued)

According to 34 CFR 361.40, the State must comply with the requirements necessary to ensure the accuracy and verification of reports required to be submitted for the program. In addition, the A-102 Common Rule requires non-federal entities receiving Federal Awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure expenditures are accurately reported in the program cost report.

In discussing these conditions with IDHS officials, they stated that changes to the work documents used to assemble the reports contained unidentified formula errors that inaccurately presented the total values.

Failure to accurately prepare financial reports prevents the USDE from effectively monitoring the Vocational Rehabilitation Cluster program. (Finding Code 12-09, 11-13, 10-11)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare financial reports required for the Vocational Rehabilitation Cluster and implement procedures necessary to ensure the reports are accurate.

IDHS Response:

The Department agrees with the recommendation. The Division of Rehabilitation Services (DRS) has reviewed the process and implemented changes to ensure the reports are accurate.

(Continued)

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families (TANF) Cluster

CFDA # and Program Expenditures: 93.558/93.714ARRA ($581,904,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-10 *Inaccurate Financial and Performance Reports for the TANF Cluster*

IDHS did not prepare accurate periodic financial and performance reports for the Temporary Assistance for Needy Families (TANF) Cluster program.

IDHS is required to report the federal maintenance of effort (MOE) expenditures for the TANF Cluster in financial status (ACF-196) reports each quarter. Additionally, IDHS is required to prepare a performance (ACF-204) report identifying all State funded and MOE expenditures for the TANF Cluster on an annual basis. During our testwork, we noted the following errors in the ACF-196 report for the quarter ended September 30, 2011 and in the ACF-204 report for the federal fiscal year ended September 30, 2011:

Report Line Item	Reported Amount	Actual Amount	Difference Over (Under) -stated
ACF-196 Report			
Basic Assistance – State MOE Expenditures	$37,958,494	$38,348,715	($390,221)
Transportation and Other Supportive Services – Federal TANF Expenditures	$3,962,086	$5,077,078	($1,114,992)
Transportation and Other Supportive Services – State MOE Expenditures	$185,346	$225,290	($39,944)
Expenditures on Non-Assistance (a) Work Related Activities (3) Other Work Activities Expenses – Federal TANF Expenditures	$14,673,592	$14,584,449	$89,143
Work Related Activities (c) Transportation (2) Other – Federal TANF Expenditures	$470,102	$559,245	($89,143)

(Continued)

Report Line Item	Reported Amount	Actual Amount	Difference Over (Under) -stated
ACF-204 Report			
TANF Cash Assistance > Total State Expenditures	$106,445,472	$106,835,693	($390,221)
TANF Cash Assistance > Total State MOE Expenditures	$37,958,494	$38,348,715	($390,221)
Supportive Services for TANF Cash Clients > Total State Expenditures	$132,042,644	$133,197,580	($1,154,936)
Supportive Services for TANF Cash Clients > Total State MOE Expenditures	$112,091,325	$112,131,269	($39,944)

According to 45 CFR 265.10, the State must comply with the requirements necessary to ensure the accuracy and verification of reports required to be submitted for the program. In addition, the A-102 Common Rule requires non-federal entities receiving Federal Awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure expenditures are accurately reported.

In discussing these conditions with IDHS officials, they stated that a formula error in the Excel spreadsheet contributed to the discrepancies noted.

Failure to accurately prepare financial and performance reports prevents the USDHHS from effectively monitoring the TANF Cluster program. (Finding Code 12-10)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare financial and performance reports required for the TANF Cluster and implement procedures necessary to ensure the reports are accurate.

IDHS Response:

The Department agrees with the recommendation. Procedures have been implemented to ensure a more thorough review of the financial and performance reports required for the TANF Cluster and to ensure that the reports are accurate.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Agriculture (USDA)
U.S. Department of Health and Human Services (USDHHS)

Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
Temporary Assistance for Needy Families Cluster
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 10.557 ($217,853,000)
93.558/93.714ARRA ($581,904,000)
93.575/93.596/93.713ARRA ($203,451,000)
93.667 ($75,972,000)
93.959 ($63,285,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-11 *Failure to Report Subaward Information Required by FFATA*

IDHS has not developed procedures to report information required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Fund (Child Care) Cluster, Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs.

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to $25,000 under federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the subaward agreement was signed, and (5) the subaward or other identifying number assigned by the State. During our testwork over 25 subawards made to subrecipients of the WIC, TANF Cluster, Child Care Cluster, Title XX, and SAPT programs, we noted IDHS did not properly identify all subawards which were subject to FFATA reporting requirements. Specifically, we noted one SAPT contract, two TANF contracts, and one Title XX contract were not reported during the year ended June 30, 2012. Additionally, we noted IDHS has not established procedures to report information required by FFATA for subawards made to subrecipients of the WIC program.

According to 2 CFR 170, a pass through entity is required to report certain identifying information for each subaward of federal funds greater than or equal to $25,000.

In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures

(1) to identify awards subject to FFATA and (2) to ensure subawards are properly reported in accordance with FFATA.

In discussing these conditions with IDHS officials, they stated that lack of staff and inadequate systems contributed to the discrepancies noted.

Failure to identify awards subject to FFATA and to report subawards in accordance with FFATA results in noncompliance with federal regulations. (Finding Code 12-11)

Recommendation:

We recommend IDHS establish procedures to: (1) identify all subawards subject to FFATA reporting requirements and (2) report required subaward information in accordance with FFATA.

IDHS Response:

The Department agrees with the recommendation. The Department is requesting additional resources and will modify existing systems to provide the required information to report Subaward Information to FFATA.

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Supplemental Nutritional Assistance Program Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Vocational Rehabilitation Cluster
Temporary Assistance for Needy Families Cluster
Child Care Development Fund Cluster
Social Services Block Grant
Children's Health Insurance Program
Medicaid Cluster
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 10.551/10.561 ($3,191,766,000)
10.557 ($217,853,000)
84.126/84.390ARRA ($104,519,000)
93.558/93.714ARRA ($581,904,000)
93.575/93.596/93.713ARRA ($203,451,000)
93.667 ($75,972,000)
93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)
93.959 ($63,285,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-12 *Inadequate Controls over Information Systems*

IDHS does not have adequate program access and change management controls over information systems used to document and determine beneficiary eligibility and record program expenditures.

The information technology applications that support the IDHS major programs include the following:

- *Concurrent* – serves as the eligibility system for the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs. The system is used by IDHS to store participant information, perform eligibility determinations for participants, and initiate and document the completion of a variety of required crossmatches for its federal programs.
- *Child Care Tracking System* – serves as the main database for the State's child care activities which is funded by the Child Care Development Fund (Child Care) Cluster and TANF Cluster programs. The system is used by IDHS and its subrecipients to store participant information, perform eligibility determinations for participants, and track the issuance and redemption of child care vouchers.
- *Consolidated Accounting Record System (CARS)* – serves as the financial accounting database for all of IDHS' federal programs and State funded programs. This system is used by IDHS to track cash receipts and disbursements on an individual award basis. Information reported in this system is used to prepare financial reports.

During our testwork over changes made to IDHS' information systems, we noted IDHS was not able to generate a list of changes made to its information systems from each respective information system or application identified above. IDHS' current procedures include tracking changes made to its information systems in a database; however, the information input into the database is based on manual change request forms. Accordingly, we were unable to determine whether the list of changes provided by IDHS from the database during our audit was complete.

In addition, during our testwork over user access review procedures performed for the CARS financial reporting system, we noted a signed access review form could not be located for one of the 15 user groups tested.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with IDHS officials, they stated IDHS was unaware of the audit requirement. Some supervisors did not return CARS access checklists or returned them very late to the Bureau of CARS System Administration.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 12-12)

Recommendation:

We recommend IDHS implement policies and procedures to ensure access to its information systems is adequately secured and to generate a list of program changes from its information systems and applications.

IDHS Response:

The Department partially agrees with the recommendation. IDHS has adequately secured access to its information systems. Access is controlled by RACF system security software. This is State standard for Illinois. This audit was the first time the auditors have required program change control reports be generated by an electronic means. For all previous audits, our Change Management tracking system has always been sufficient. This year, the change in audit requirements was not communicated to IDHS prior to the draft report and as a result, the required report was only available for one (1) of the four (4) systems reviewed. IDHS is looking into ways of providing the required system generated reports.

The Bureau of CARS System Administration will enhance its process in order to encourage response to the CARS semi-annual confirmation.

(Continued)

Auditors' Comment:

Audit procedures are not necessarily the same from year to year to maintain an element of unpredictability in the audit process as required by professional standards. The request for system generated reports to support changes was made several times during the audit; however, IDHS was not able to provide this information for the information system applications identified in the finding above.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-13 *Inadequate Procedures for Performing Eligibility Redeterminations*

Eligibility redetermination procedures implemented by DHFS for the Children's Health Insurance Program (CHIP) and Medicaid Cluster (Medicaid) are not adequate.

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the CHIP and Medicaid 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.

According to DHFS and DHS records, the following number of cases and related beneficiary payments were subject to the passive redetermination policy during the fiscal year ended June 30, 2012:

	Number of Redeterminations	Beneficiary Payments
Medicaid	209,066	$408,986,471
CHIP	70,305	$118,778,323
Total	279,371	$527,764,794

Payments made on the behalf of beneficiaries of the CHIP and Medicaid programs were $208,669,000 and $6,275,740,000, respectively, during the year ended June 30, 2012.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated June 2012, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid and CHIP programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis. According to 42 CFR 435.916(b) the State is required to implement procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures

(Continued)

to ensure eligibility redeterminations are performed in accordance with the State Plans and federal regulations.

In discussing these conditions with DHFS officials, they stated that they do not believe the passive redetermination process failed to comply with federal regulations or the State Medicaid Plan.

Failure to implement appropriate eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 12-13, 11-16, 10-13, 09-15, 08-17, 07-25)

Recommendation:

We 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.

DHFS Response:

The Department accepts the recommendation. Although DHFS does not agree that its previous process failed to comply with federal regulations and the State Medicaid Plan, the Department has implemented an entirely new redetermination process in compliance with the SMART Act (PA 97-0689).

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, we noted 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 CHIP, 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 CHIP programs.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-14 *Missing Documentation in Beneficiary Eligibility Files*

DHFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Children's Health Insurance Program (CHIP) and Medicaid Cluster (Medicaid).

During our testwork of 65 CHIP and 125 Medicaid beneficiary payments totaling $10,716 and $80,495, respectively, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions:

- In seven CHIP case files (with medical payments sampled of $653) DHFS did not have supporting documentation of the redetermination completed and signed by the beneficiary since these were administratively renewed. Medical payments made on behalf of those beneficiaries under CHIP were $16,064, for the year ended June 30, 2012.

- In one CHIP case file (with medical payments sampled of $3), DHFS could not locate adequate documentation evidencing income verification procedures were performed. In lieu of collecting copies of paystubs to verify income, caseworkers verbally confirmed income information, relied on clients handwritten notes, or used income verified on previous applications. Medical payments made on behalf of these beneficiaries under the CHIP program were $50,278 during the year ended June 30, 2012.

Payments made on the behalf of beneficiaries of the CHIP and Medicaid programs were $208,669,000 and $6,275,740,000, respectively, during the year ended June 30, 2012.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure be adequately documented.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated June 2012, DHFS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis.

(Continued)

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with DHFS officials, they stated that the administrative renewal process does not require a hard copy document to be placed in the file.

Failure to maintain 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. (Finding Code 12-14, 11-17, 10-14, 09-16)

Recommendation:

We recommend DHFS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

DHFS Response:

The Department accepts the recommendation. DHFS is working with DHS to establish electronic data matches for various factors of eligibility and are moving toward electronic case records.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-15 *Failure to Pay Medical Claims within Prescribed Timeframes*

The State is not paying practitioner medical claims for individuals receiving benefits under the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs in accordance with timeframes required by federal regulations.

Federal regulations require the medical providers to submit all medical claims within twelve months of the date of service and require the State to pay practitioner medical claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. The processing of medical claims involves a series of electronic system edits to verify all applicable data is provided, verify recipient eligibility, verify expenditure allowability, and calculate the provider reimbursement. Once a medical payment has been approved for payment, it is adjudicated, vouchered and submitted to the Office of the Comptroller for payment.

During our audit, we noted DHFS performs periodic analyses to monitor compliance with medical payment timeframe requirements. Upon review of the analysis covering practitioner medical payments during State fiscal year 2012, we noted medical payments were not made within the 30 day payment timeframes required by federal regulations. Management's analysis identified that of the 40,150,513 claims for $5,400,967,941 paid in State fiscal year 2012, only 73.8% (29,623,747 claims for $1,477,676,233) were paid within 30 days of receipt, and 90.7% (36,397,416 claims for $3,071,790,831) were paid within 90 days of receipt. Management analysis also identified that of the 3,541,182 CHIP claims for $242,376,929 paid in State fiscal year 2012, only 77.7% (2,750,427 claims for $120,939,083) were paid within 30 days of receipt and only 92.8% (3,286,801 claims for $161,210,975) were paid within 90 days of receipt.

In accordance with 42 CFR 447.45(d), the State is required to pay 90% of all clean claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. The State must pay all other claims within twelve months of the date of receipt. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure practitioner medical claims are paid in accordance with timeframes required by federal regulations.

(Continued)

In discussing these conditions with DHFS officials, they stated State cash-flow limitations were the essential reason why some medical payments may not have been made within the federally prescribed timeframes.

Failure to pay medical claims in accordance with the required timeframes may result in unallowable costs being charged to the program. (Finding Code 12-15, 11-18, 10-15, 09-17, 08- 19)

Recommendation:

We recommend the State review its current process for paying medical payments and consider changes necessary to ensure medical payments are made within the timeframes prescribed within the federal regulations.

DHFS Response:

The Department accepts the recommendation. DHFS has established internal medical payment pull parameters to allow for payment within the prescribed federal timeframes. Fiscal year 2012 medical claims were adjudicated by the Department in a timely manner and staff engage in routine discussions with the Illinois Office of the Comptroller regarding medical payments. The Department will continue to process medical claims within the timeframes required under federal regulations; however, claims may be held for payment by the Comptroller until cash is available.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-16 *Failure to Disburse Hospital Assessment Payments in Accordance with the State Plan*

DHFS did not disburse monthly hospital assessment payments within the required timeframes for the Medicaid Cluster.

The State operates a Hospital Assessment Program under which the State is allowed to claim federal reimbursement for services paid with eligible healthcare provider taxes collected by the State. On an annual basis, each participating hospital receives a hospital assessment award calculated by DHFS using inpatient utilization data specific to the hospital. The approved State Plan in effect during fiscal year 2012 requires these annual awards to be paid by the State in equal installments on the seventh business day of each month.

During our testwork over hospital assessment payments, we noted disbursements were not made in equal monthly installments during the year ended June 30, 2012. Specifically, we noted DHFS made these payments in six equal and accelerated installments in July, August, September, October, November, and December 2011. Total payments made to providers for the hospital assessment program of the Medicaid Cluster totaled $1,483,036,000 during the year ended June 30, 2012.

According to 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Compliance Supplement, dated June 2012, the Hospital Assessment Program is required to be administered in accordance with the requirements defined in its approved State Plan. In accordance with the approved Medicaid State Plan, the annual amount of each hospital assessment payment for which a hospital qualifies shall be made in twelve equal installments on or before the seventh State business day of each month. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure monthly hospital assessment payments are disbursed in accordance with the Medicaid State Plan.

In discussing these conditions with DHFS officials, they stated that enhanced federal matching percentages made it advantageous for the Department to disburse assessment funds on an accelerated schedule. This schedule allowed DHFS to increase funds provided by the federal government.

Failure to disburse monthly hospital assessment payments within the required timeframes results in noncompliance with the federal regulations. (Finding Code 12-16, 11-19, 10-16)

Recommendation:

We recommend DHFS implement procedures to ensure all hospital assessment payments are disbursed in accordance with the Medicaid State Plan.

DHFS Response:

The Department accepts the recommendation. The Department is currently working with the federal Center for Medicare and Medicaid Services to amend the State Plan to allow accelerated assessment payments.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-17 *Failure to Initiate, Complete, and Report Overpayments Identified in Provider Audits in a Timely Manner*

DHFS did not initiate, complete, or report overpayments identified in audits of providers of the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs in a timely manner.

The DHFS Office of Inspector General (OIG) conducts several types of audits and reviews of healthcare providers to monitor the integrity of payments made to providers of the CHIP and Medicaid Cluster programs. Specifically, the OIG performed post-payment compliance audits to identify improper payments which may have been made to providers and quality of care reviews to assess whether healthcare providers are giving proper care and services to CHIP and Medicaid beneficiaries. These audits may lead to sanctions against providers, recoveries of overpayments from providers, and/or criminal prosecution of providers. The OIG reports the results of these audits, as well as its other activities, to the Center for Medicare and Medicaid Services on an annual basis.

During our testwork over 50 providers recommended by the OIG for audit, we noted there were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, we noted 8 of the 50 provider audits tested had not been completed as of the date of our testwork. The number of days that had elapsed between the date the provider was recommended for audit and the audit start date ranged from 29 to 785 days.

For the 42 provider audits completed, we noted 12 provider audits were not completed in a timely manner. Specifically, for these 12 provider audits, the length of time to perform the audits ranged from 186 to 555 days.

In addition, based on information provided by a USDHHS audit and procedures performed during our audit, we noted the USDHHS audit report identified $324,100 of overpayments sampled from the period August 1, 2007 to July 31, 2009 that were not completely reported in accordance with federal requirements. In addition, for 116 of 137 overpayments sampled, DHFS did not report the overpayment in a timely manner which could have resulted in an increased interest expense to the federal government of $560,835. Further, during our audit procedures, we noted an overpayment in the appeals process that was identified June 8, 2007 and not reported on quarterly financial reports totaling $14,800,000 during the year ended June 30, 2012.

(Continued)

According to 42 CFR 455.17, the OIG is required to report on the results of its activities and investigations periodically. The OIG has a responsibility to investigate violations of the applicable laws, follow up on complaints, and perform provider audits. In accordance with State Medicaid Director Letter #10-014, the State Medicaid agency is required to refund the Federal share of an overpayment to a provider up to one year after the date of discovery, whether or not the State Medicaid agency has recovered the overpayment. Because the Medicaid quarterly financial expenditure report is due on a quarterly basis, the *State Medicaid Manual* requires the Federal share of overpayments be reported no later than the quarter in which the one year period ends.

Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal control should include procedures to ensure provider analysis and audits are performed and completed in a timely manner. Effective internal controls should also include procedures to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government.

In discussing these conditions with DHFS officials, they stated that efforts to timely complete provider audits have been hampered in part by insufficient resources, including reduced numbers of staff. DHFS has an informal policy of reporting overpayments not involving fraud or abuse at the conclusion of the provider appeals process, not within 365 days of discovery.

Failure to initiate, perform, and report overpayments identified in provider audits in a timely manner may result in federal funds being expended for unallowable purposes and may prevent the State from adequately monitoring payments to providers. (Finding Code 12-17, 11-20, 10-17, 09-18, 08-20)

Recommendation:

We recommend DHFS evaluate their procedures to ensure provider audits are performed and completed in a timely manner. We also recommend DHFS implement procedures to report overpayments on its quarterly reports and remit the federal share of overpayments in accordance with federal regulations.

DHFS Response:

The Department accepts the recommendation. 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. Factors that may extend the time necessary to complete an audit include the type and volume of documentation to be audited, the type of audit and the availability of information to be audited. The Department is reviewing its procedures and implementing changes to ensure that provider audits are performed and completed in a timely manner. DHFS is also reviewing its procedures and implementing changes to report overpayments on quarterly reports and remit the federal share of overpayments in accordance with federal regulations.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-18 *Inadequate Procedures to Monitor and Report Overpayments*

DHFS does not have an adequate process to monitor and report overpayments identified for providers of the Home and Community Based Services Waiver programs administered by the Illinois Department of Human Services (IDHS).

DHFS executed an intergovernmental agreement with IDHS whereby the Division of Rehabilitation Services (DRS) administers three Home and Community Based Services Waiver programs. As part of its responsibilities, IDHS enrolls and reimburses providers for claimed waiver services, and subsequently, submits claims for Medicaid reimbursement to DHFS. The DRS State Benefits Fraud Unit (Fraud Unit), on a post-payment basis, identifies overpayments made to these providers. The Fraud Unit documents the overpayments, contacts the provider that received the overpayment, verifies the overpayment amount with the provider, and sets up a system to track and recoup the identified overpayments.

During our audit, we noted DHFS did not report overpayments identified by the Fraud Unit from State fiscal years 2009, 2010, and 2011 on its quarterly financial expenditure reports or return these amounts to the federal government until September 30, 2012. Overpayments identified by the Fraud Unit reported on September 30, 2012 financial report totaled $240,805. We also noted overpayments for the year ended June 30, 2012 have not been reported as of the date of our testwork on December 13, 2012.

In accordance with Section 1903(d)(2) of the Social Security Act, states are required to refund the Federal share of a Medicaid overpayment. Further, 42 CFR 433.312 require the State Medicaid agency to refund the Federal share of an overpayment to a provider at the end of the 1 year period following the date of discovery, whether or not the State Medicaid agency has recovered the overpayment. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include procedures to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government.

In discussing these conditions with DHFS officials, they stated that their priority was to implement a system for DRS to process current overpayments through MMIS.

Failure to properly monitor and report overpayments may result in the agency failing to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government. (Finding Code 12-18, 11-22, 10-19)

(Continued)

Recommendation:

We recommend DHFS review its current process for monitoring and reporting overpayments and implement any changes necessary to ensure such overpayments are reported on the quarterly financial expenditure reports and returned to the federal government.

DHFS Response:

The Department accepts the recommendation. A manual adjustment was made for fiscal years 2009, 2010 and 2011. Current overpayments are now being identified by DRS and provided to DHFS in a timely manner. DHFS and DRS will continue to work together to monitor the process for submitting the overpayments as required. DHFS has implemented controls to monitor whether DRS is reporting overpayments to the Department on a quarterly basis.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-19 *Inadequate Process to Verify Procedures Billed by Provider with Beneficiaries*

DHFS does not have adequate procedures in place to verify with beneficiaries of the Medicaid Cluster program whether services billed by providers were actually received.

During our testwork, we noted DHFS procedures for verifying with beneficiaries whether services billed by providers were actually received by Medicaid Cluster Beneficiaries consisted of special projects performed by the DHFS Office of Inspector General and Bureau of Comprehensive Health Services. However, the current projects only cover procedures billed by non-emergency transportation providers, optometric providers, and dental providers which only account for 2% of total provider reimbursements. Further, DHFS does not perform any verification procedures for services billed by the following provider types:

- Hospitals
- Mental Health Facilities
- Nursing Facilities
- Intermediate Care Facilities
- Physicians
- Other Practitioners
- Managed Care Organizations
- Home and Community-Based Service Providers
- Physical Therapy Providers
- Occupational Therapy Providers

Payments made to non-emergency transportation providers, optometric providers, and dental providers totaled $363,420,000 during the year ended June 30, 2012. Payments made to providers on behalf of all beneficiaries of the Medicaid Cluster totaled $6,275,740,000 during the year ended June 30, 2012.

According to 42 CFR 455.20(a), the State must have a method for verifying with recipients whether services billed by providers were received. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to verify with recipients whether services billed by providers were received.

In discussing these conditions with DHFS officials, they stated that the Department does not have the staff or resources to implement an expanded recipient verification process at this time.

Failure to verify with recipients whether services billed by providers were received may result in expenditures being made for services not actually provided to beneficiaries, which are unallowable costs. (Finding Code 12-19, 11-23, 10-20)

Recommendation:

We recommend DHFS implement procedures to verify with recipients whether services billed by providers were received.

DHFS Response:

The Department accepts the recommendation, but does not have the staff or resources to implement a recipient verification process at this time. The tasks required to appropriately implement such a process are highly complex and burdensome. This process will be implemented as part of the new MMIS through various requirements that include:

- validation of Explanation of Benefits (EOB) online through the recipient portal;
- dynamic system functionality that support EOB sample selection;
- ability to include laymen's description of procedure and diagnosis codes on EOBs; and
- functionality that support linguistically and culturally appropriate EOBs.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-20 *Failure to Update and Implement Reimbursement Rate Methodology Changes for Government Owned Hospitals in a Timely Manner*

DHFS did not update and make disproportionate share hospital payments in a timely manner to government owned hospitals participating in the Medicaid Cluster.

On December 4, 2008, the Department received approval from the Centers for Medicare and Medicaid Services (CMS) for an amendment to the Medicaid State Plan, which changed the methodology for reimbursing government owned hospitals participating in the Medicaid Cluster and was retro-active as of July 1, 2008. According to the amendment, DHFS was to reimburse the government owned hospitals a total per diem rate which is the sum of a calculated inpatient per diem, a calculated disproportionate share adjustment and a calculated supplemental disproportionate share adjustment less the amount of expenditures certified by the respective hospitals. The total per diem rates for these two hospitals are recalculated on an annual basis, with State statute requiring the government owned hospital per diem be set by October 1st of each year. Further, each government owned hospital receives an annual disproportionate share hospital award which is required to be paid out in twelve equal monthly installments throughout the year.

During our testwork of 65 CHIP and 125 Medicaid beneficiary payments, we reviewed provider reimbursements for accuracy and the allowability of the related benefits provided. During those procedures, we noted DHFS has not developed a set of policies and procedures for developing rates used to calculate the inpatient, outpatient, and disproportionate share rates for government owned hospitals.

Further, DHFS did not finalize the 2012 per diem rates for two providers until September 2012. Because DHFS did not set the provider per diem rates for 2012 until September 2012 these hospitals' reimbursements for State fiscal year 2012 were subsequently adjusted by $10,180,107 and $1,818,891 in September 2012. We also noted the State fiscal year 2013 rates were not finalized for these two providers until November 19, 2012.

In accordance with 42 CFR 447.15 and the approved Medicaid State Plan, DHFS is required to limit participation in the Medicaid program to providers who accept, as payment in full, the amounts paid by the agency for services rendered to beneficiaries. Further, the approved Medicaid State Plan requires the annual amount of each disproportionate share hospital payment for which a government owned hospital qualifies to be made in 12 equal installments throughout the fiscal year. Additionally, the A-102 Common

Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure hospital reimbursement rates are updated in a timely manner and disproportionate share hospital payments are made within the required timeframes.

In discussing these conditions with DHFS officials, they stated that recent changes in reimbursement rate methodology for large government-owned hospitals have necessitated rate recalculations and adjustments. This occurred due to approval of a Medicaid State Plan amendment that modified the inpatient cost inflator used to calculate rates.

Failure to ensure hospital reimbursement rates are updated and disproportionate share hospital payments are made in a timely manner may result in inaccurate provider reimbursements, inaccurate financial reporting of expenditures, and provider overpayments, which are unallowable costs. (Finding Code 12-20, 11-24, 10-23)

Recommendation:

We recommend DHFS implement procedures to ensure all disproportionate share hospital payments are updated and made in a timely manner to government owned hospitals.

DHFS Response:

The Department accepts the recommendation. A Medicaid State Plan amendment requiring retroactive adjustments caused a delay in current rate calculations. DHFS has created procedures for inpatient and outpatient rates that provide an outline for estimated completion of annual rate calculations in a timely manner. The Department will create similar procedures for disproportionate share calculations. It should be noted, negotiations with these providers can also cause unforeseen delays in rate implementation.

(Continued)

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-21 *Failure to Obtain Required Disclosures from Providers*

DHFS did not obtain required disclosures from providers about ownership and control, business transactions, and criminal convictions.

During our testwork of Children's Health Insurance Program (CHIP) and Medicaid Cluster programs, we noted that DHFS utilizes a standard provider application and agreement which requires disclosure of the following information:

- each subcontractor in which the provider has an ownership interest of five percent of more;
- the address of each person with an ownership or controlling interest;
- business or familial relationships among the owners and subcontractors disclosed;
- past criminal convictions related to Medicare, Medicaid, or Title XX programs;
- ownership of any subcontractor with whom the provider had business transactions totaling more than $25,000 during the previous 12-month period if requested by DHFS; and
- significant business transactions between the provider and any wholly owned supplier, or between the provider and any subcontractor, during the previous 5-year period if requested by DHFS.

During our testwork on 44 providers, we noted a complete agreement was not on file for two of the providers tested. As a result, required disclosures were not obtained for these providers relating to the address of each person with an ownership or controlling interest, business or familial relationships among the owners and subcontractors disclosed, and past criminal convictions related to Medicare, Medicaid, or Title XX programs.

Additionally, based on information provided by a Center for Medicare and Medicaid Services (CMS) audit and procedures performed during our audit, we noted DHFS does not have an adequate process to capture required ownership, control, and relationship information from Fee for Service providers, Home and Community Based providers, Dental Program Administrators, and Managed Care Organizations.

In accordance with 42 CFR 455 Subpart B, and the approved Medicaid State Plan, providers are required to disclose specific information about ownership and control, business transactions, and criminal convictions. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal

laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure the standard provider applications and enrollment agreements address or capture specific information related to disclosures required by federal regulations.

In discussing these conditions with DHFS officials, they stated that elements required to be disclosed by providers has changed several times since this finding was first reported which has delayed the implementation of planned corrective actions.

Failure to ensure providers of the CHIP and Medicaid Cluster programs provide required disclosures about ownership and control, business transactions, and criminal convictions may inhibit the State's ability to determine provider eligibility and could result in payments being made to ineligible providers, which are unallowable. (Finding Code 12-21, 11-25, 10-24, 09-26)

Recommendation:

We recommend DHFS obtain the required information about ownership and control, business transactions, and criminal convictions for all CHIP and Medicaid Cluster providers.

DHFS Response:

The Department accepts the recommendation. DHFS modified the enrollment application and agreements to capture the newly required information as outlined in the Affordable Care Act. Prior to the new forms being distributed, the SMART Act was passed and required further review of the enrollment process to ensure compliance with laws and regulations. In January 2013, an administrative decision was made to not distribute the finalized paper application and associated forms and agreements to re-enroll over 200,000 providers via a manual process. Instead, DHFS decided to work to implement the provider enrollment piece of the new MMIS which will comply with all requirements. The projected implementation date for the new provider enrollment system is February 2014. DHFS will obtain the required disclosures from the two providers identified in this audit.

(Continued)

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 ($140,937,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-22 *Inadequate On-Site Monitoring of Child Support Subrecipients*

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

DHFS passes through Child Support program funding to various local governments within the State to administer particular aspects of operating the program, including locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions and handbooks; (2) performing reviews of monthly expenditure claims documentation; (3) performing physical inventories of equipment purchased with federal funds; (4) performing reviews of monthly programmatic monitoring reports; (5) performing desk reviews of single audit reports; and (6) reviewing vendor and subrecipient agreements.

During our review of the on-site monitoring procedures performed by DHFS for a sample of 16 subrecipients of the Child Support program with expenditures of $14,259,433 during the year ended June 30, 2012, we noted DHFS has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. DHFS selects subrecipients to perform on-site fiscal and administrative monitoring procedures using a risk based approach. Specifically, DHFS places each subrecipient receiving funding into a risk level (no risk, low, medium, and high) category that dictates the year (annual on-site, on-site every 3 years, desk audit every 5 years, and no review necessary) in which DHFS would perform on-site or desk review fiscal and administrative monitoring procedures. These risk assessments are based on the funding level received by the entity.

However, in reviewing the subrecipient risk assessment and on-site monitoring procedures performed by DHFS, we noted the following:

- the monitoring tools used by DHFS for on-site fiscal and administrative reviews of subrecipients did not include procedures designed to ensure costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.
- the criteria for selecting subrecipients for on-site monitoring reviews appears to be solely weighted on the amount of funding expended by the subrecipient. Although DHFS indicated other criteria are considered in developing its monitoring approach, these other criteria were not documented.
- the on-site monitoring procedures for one subrecipient (receiving subawards totaling $1,286,781) with a high risk score were not complete as of the date of our testing (December 19, 2012).

Although DHFS collects a monthly expenditure claim along with documentation supporting the expenditures reported by the subrecipient, the documentation collected does not provide sufficient detail to allow DHFS to evaluate whether the costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.

According to OMB Circular A-133 §__.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with DHFS officials, they stated that some of the monitoring tools did not include enough detail to document the monitoring of whether costs were allowable. Additionally, the monitoring for one subrecipient was not completed on schedule due to the Department waiting for a response regarding a legal opinion that was being sought.

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. (Finding Code 12-22, 11-26, 10-25, 09-20, 08-23)

Recommendation:

We 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.

DHFS Response:

The Department accepts the recommendation. DHFS will provide additional detail to better document the risk assessment and monitoring procedures already being performed.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Child Support Enforcement
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563 ($140,937,000)
93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-23 *Failure to Obtain Suspension and Debarment Certifications from Vendors*

DHFS did not obtain required certifications that vendors or medical providers were not suspended or debarred from participation in Federal assistance programs for the Child Support Enforcement, Children's Health Insurance Program, and Medicaid Cluster Programs.

During our review of twenty vendors of the Child Support Enforcement program and twenty vendors allocated to all federal programs, we noted certifications were not obtained from two vendors to indicate whether or not these vendors were suspended or debarred from participation in Federal assistance programs. Additionally, DHFS did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for vendors. We also noted DHFS has not developed procedures to perform verification checks of medical providers with EPLS as required by federal regulations.

Payments to vendors allocated to the Child Support Enforcement, Children's Health Insurance Program, and Medicaid Cluster Programs totaled $19,114,000, $4,285,000, and $306,397,000, respectively, during the year ended June 30, 2012. Payments made to providers on the behalf of beneficiaries of the CHIP and Medicaid programs were $208,669,000 and $6,275,740,000, respectively, during the year ended June 30, 2012.

According to 45 CFR 74.13, subawards and contracts with parties that are debarred, suspended or otherwise excluded from or ineligible for participation in the Federal assistance programs or activities under Executive Order 12549 and 12689, "Debarment and Suspension" are prohibited. According to 42 CFR 455.436, effective March 25, 2011, a state is required to perform verification checks of providers with the "List of Excluded Individuals/Entities" maintained by the USDHHS and the "Excluded Parties List System" (EPLS) maintained by the General Services Administration no less frequently than monthly. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with DHFS officials, they stated that the two vendors identified as exceptions were procured by the Illinois Department of Central Management Services (DCMS) under master contracts and the Department relied on procedures performed by DCMS. In addition, the Department stated that they believed procedures in place to check providers against the Illinois sanction database were adequate to meet this requirement.

Failure to perform verification procedures with the EPLS could result in the awarding of Federal funds to vendors that are suspended or debarred from participation in Federal assistance programs. (Finding Code 12-23, 11-31, 10-32, 09-24)

Recommendation:

We recommend DHFS establish procedures to ensure that vendors contracting with DHFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs. We also recommend DHFS work with agencies contracting with vendors on the behalf of DHFS to ensure the suspension and debarment certifications are included and the EPLS is checked.

DHFS Response:

The Department accepts the recommendation. DHFS will implement procedures to ensure contracts procured by other agencies include the proper certifications and EPLS verifications.

(Continued)

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: $8,509,760

Finding 12-24 *Failure to Verify Medicaid Eligibility for Psychiatric Hospitals*

DHFS did not verify Medicaid eligibility for psychiatric hospitals participating in the Medicaid Cluster program as required by federal regulations.

To be eligible for federal reimbursement under the Medicaid Cluster program, inpatient psychiatric service and disproportionate share hospital payments must be made to a facility that has demonstrated compliance with Medicare Conditions of Participation applicable to all providers, as well as two criteria specific to psychiatric hospitals. The basic Medicare Conditions of Participation are generally satisfied through accreditation by The Joint Commission (a national healthcare accreditation organization); however, the requirements specific to psychiatric hospitals are not covered by this accreditation and must be surveyed by the State.

Based on information provided by a USDHHS audit and procedures performed during our audit, we noted DHFS has not established or performed procedures to verify facilities have demonstrated compliance with the Medicare Conditions of Participation specific to psychiatric hospitals. DHFS stopped reimbursing non-certified psychiatric hospitals for inpatient claims effective January 1, 2012. Total inpatient psychiatric services payments made to psychiatric hospitals for the period from July 2, 2011 to December 31, 2011 under the Medicaid Cluster program totaled $8,509,760.

According to Section 2718 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, psychiatric hospitals must be specially surveyed by qualified psychiatric health care professionals to demonstrate compliance with the special Medicare Conditions of Participation. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to survey psychiatric hospitals to verify such facilities have complied with the applicable Medicare Conditions of Participation.

In discussing these conditions with DHFS officials, they stated that they were in compliance with the approved State Plan which required accreditation by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

(Continued)

Failure to verify psychiatric hospitals have been surveyed and demonstrate compliance with the Medicare Conditions of Participation may result in payments to ineligible providers which are unallowable costs. (Finding Code 12-24, 11-35)

Recommendation:

We recommend DHFS implement procedures to verify psychiatric hospitals have been surveyed for compliance with the Medicare Conditions of Participation specific to this provider type.

DHFS Response:

The Department accepts the recommendation. Since March 1, 1995, the approved Illinois State Plan has defined the qualifications of a DSH eligible hospital to include a state owned facility with JCAHO accreditation. The State Plan never required Medicare certification nor has federal CMS ever provided Illinois any guidance to indicate that our approved requirements did not meet federal regulations. CMS reviewed the State Plan language again in 1998 and the methodology for Institutions for Mental Disease DSH payments in 2000 and no concerns were raised. In response to the federal audit, the Department submitted a State Plan amendment to remove the language refereeing JCAHO accreditation and replace it with language referencing eligibility pursuant to federal regulations. The Department is currently verifying Medicaid eligibility of psychiatric facilities and is not processing payments for those facilities failing to meet this requirement.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-25 *Inadequate Procedures to Monitor Agencies Operating Home and Community Based Waivers*

DHFS does not have an adequate process to monitor agencies operating the Home and Community Based Services Waiver programs.

The Illinois Medicaid program, as administered by DHFS, currently has nine federally approved home and community based waiver programs. Eight of the nine waivers are operated by other state agencies. As the single state Medicaid agency, DHFS is responsible for oversight and monitoring of the other state-agencies to ensure compliance with federal waiver assurances. Approximately 1,000 home and community based waiver providers are eligible to participate in the waiver programs. Monitoring procedures primarily consist of medical record reviews, reviews of annual audited financial statements, and comprehensive on-site reviews developed in accordance with the State Plan. DHFS contracts with a service provider to perform the medical claim record reviews and on-site reviews over an annual sample of 500 medical claim records and 28 providers.

During our review of monitoring procedures performed by DHFS and its service provider, we noted DHFS does not have a formalized process to follow up on deficiencies identified during on-site reviews for the Developmentally Disabled, Brain Injury, HIV and AIDS, and Persons with Disabilities waiver programs. Following each on-site review, DHFS sends the other state agencies a letter notifying them of the deficiencies identified, with a request to respond within 60 days with plans for individual and systemic correction. However, no formal follow up procedures are performed to ensure the corrective action plans were implemented or whether the deficiencies may still exist.

According to 42 CFR 431.10, the Medicaid agency is responsible for ensuring that a waiver is operated in accordance with applicable Federal regulations and the provisions of the waiver itself. According to 45 CFR 441.302, states are required to provide assurance that necessary safeguards have been taken to protect the health and welfare of the beneficiaries of the services. Those safeguards must include adequate standards for all types of providers that provide services under the waiver; assurance that the standards of any State licensure or certification requirements are met for services or for individuals furnishing services that are provided under the waiver; and assurance that all facilities covered by section 1616(e) of the Act, in which home and community-based services will be provided, are in compliance with applicable State standards that meet the requirements of 45 CFR Part 1397 for board and care facilities.

In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations

and program compliance requirements. Effective internal controls should include establishing follow up procedures on monitoring deficiencies to determine whether corrective action plans are implemented or whether the deficiencies still exist.

In discussing these conditions with DHFS officials, they stated that they believed the formal communications combined with quarterly meetings to discuss progress were adequate procedures.

Failure to adequately monitor agencies operating Home and Community Based waiver programs may result in provider health and safety standard violations and unallowable costs being claimed to the program. (Finding Code 12-25)

Recommendation:

We recommend DHFS review its current process for monitoring agencies operating Home and Community Based waivers to ensure monitoring is in accordance with the federal regulations.

DHFS Response:

The Department accepts the recommendation. When the DHFS monitoring process was developed, DHFS expected a timely response from the operating agencies; therefore, the Department did not build in formal follow up procedures. For routine findings that do not impact health, safety or welfare, DHFS requires a response within 60 days from the date of the DHFS notification of findings. DHFS specifically requests that the operating agencies submit a plan of correction, including both individual and systemic remediation. Although a formal response is not received, DHFS and the operating agencies discuss the findings and remediation during quarterly meetings. For non-routine issues that may impact health, safety or welfare of wavier participants, DHFS notifies the operating agency immediately and issues are addressed by the operating agency as quickly as possible. DHFS follows up to closure to ensure the health, safety and welfare of wavier participants. The Department will review its current process and implement formal procedures to monitor follow-up responses from the operating agencies to ensure corrective action is taken.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-26 *Inadequate Procedures to Refer Fraud to the Illinois State Police Medicaid Fraud Control Unit*

DHFS did not adequately investigate and refer suspected instances of Medicaid provider fraud to the Illinois State Police Medicaid Fraud Control Unit (MFCU).

Within the Department of Healthcare and Family Services, the component dedicated to fraud and abuse detection is the DHFS Office of the Inspector General (OIG). The OIG's mandate is to prevent, detect, and eliminate fraud, waste, abuse, misconduct and mismanagement in programs administered by the Illinois Department of Healthcare and Family Services. Suspected criminal cases are referred by the OIG to the MFCU within the Illinois State Police (ISP).

The OIG process for identifying and referring cases of fraud to the MFCU as required by federal statute includes conducting preliminary investigations into all complaints, referrals, or allegations received by the OIG and determining whether an investigation should be initiated. All complaints, referrals, or allegations determined to be of merit and suspecting provider fraud are referred to MFCU for further investigation and criminal prosecution. During our review of the OIG process for referring cases of fraud to MFCU, we noted the OIG made no referrals to MFCU during the State fiscal year 2012. While the OIG received fraud referrals from both internal and external sources in fiscal year 2012, no cases were completely investigated or referred to MFCU during the year. The OIG received 137 fraud referrals during the year ended June 30, 2012.

According to 42 CFR 455.13, the State Medicaid agency must have methods and criteria for identifying suspected fraud cases; methods for investigating these cases; and procedures, developed in cooperation with State legal authorities, for referring suspected fraud cases to law enforcement officials. In addition, according to 42 CFR 1007, a Medicaid Fraud Control Unit is responsible for conducting a Statewide program for investigating and prosecuting (or referring for prosecution) violations of all applicable State laws pertaining to fraud in the administration of the Medicaid program, the provision of medical assistance, or the activities of providers of medical assistance under the State Medicaid plan.

In discussing these conditions with DHFS officials, they stated that DHFS maintains adequate procedures to refer fraud to the Illinois State Police Medicaid Fraud Control Unit. The change made to the federal rules on March 25, 2011 created problems for Program Integrity Units across the nation. This process was further diminished by process changes within related agencies. Administrative changes within the OIG (mid-fiscal year 2012) initiated the review and realignment of resources toward the current procedures in place.

Failure to completely investigate and refer suspected fraud to the MFCU may result in noncompliance with Medicaid integrity requirements and unallowable costs being charged to the program. (Finding Code 12-26)

Recommendation:

We recommend the DHFS OIG review its current process for performing investigations and making fraud referrals to the MFCU and consider any changes necessary to ensure cases of suspected provider fraud are properly referred.

DHFS Response:

The Department accepts the recommendation. On March 23, 2012 Federal CMS provided final rules related to the changes made by the Affordable Care Act, modifying the referral standard and required imposition of payment suspensions from a "credible evidence" standard to a "credible allegation" standard. OIG has revised its processes for referring matters to the Illinois State Police Medicaid Fraud Control Unit. During fiscal year 2012, the OIG reinitiated the Narrative Review Process which had previously been halted in 2009. Throughout the remainder of fiscal year 2012, OIG provided 18 referrals to the Illinois State Police. OIG and the Department of Human Services (DHS) have also modified the DHS internal incident reporting system into a direct referral system to OIG, resulting in numerous referrals to MFCU. Processes continue to be analyzed, modified and implemented to increase the number and quality of referrals to law enforcement.

Auditors' Comment:

We respectfully disagree with the Department's response. Populations provided to us for testing during our audit identified 137 fraud referrals were received by the OIG and no cases were completely investigated or referred to the MFCU during the year ended June 30, 2012. Evidence could not be provided to support the 18 referrals made through the Narrative Review Committee.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Child Support Enforcement
Medicaid Cluster

CFDA # and Program Expenditures: 93.563 ($140,937,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-27 *Failure to Report Subaward Information Required by FFATA*

DHFS did not report information required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Child Support Enforcement (Child Support) and Medicaid Cluster programs.

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to $25,000 under federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the subaward agreement was signed, and (5) the subaward or other identifying number assigned by the State. During our testwork, we noted DHFS did not report information required by FFATA for subawards made to subrecipients of the Child Support and Medicaid Cluster programs during the year ended June 30, 2012. Federal awards passed through to subrecipients of the Child Support and Medicaid Cluster programs subject to FFATA reporting requirements totaled $22,641,000 and $107,831,000, respectively, for the year ended June 30, 2012.

According to 2 CFR 170, a pass through entity is required to report certain identifying information for each subaward of federal funds greater than or equal to $25,000.

In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures (1) to identify awards subject to FFATA, (2) to obtain subrecipient DUNS numbers prior to awarding federal financial assistance to subrecipients, and (3) to ensure subawards are properly reported in accordance with FFATA.

In discussing these conditions with DHFS officials, they stated that the Department was aware that the federal reporting system was not fully operational and did not assign a high priority to this project.

Failure to identify awards subject to FFATA and to report subaward in accordance with FFATA results in noncompliance with federal regulations. Additionally, failure to obtain subrecipient DUNS numbers inhibits the State's ability to meet its reporting requirements under FFATA. (Finding Code 12-27, 11-36)

Recommendation:

We recommend DHFS establish procedures to: (1) identify awards subject to FFATA reporting requirements, (2) obtain subrecipient DUNS numbers, and (3) report required subaward information in accordance with the FFATA.

DHFS Response:

The Department accepts the recommendation. After the end of the audit period, but prior to the auditor's testing, the Department identified the subawards subject to FFATA reporting. Several attempts to upload the information to the fsrs.gov reporting website were made. DHFS will continue our efforts to upload the subaward information to fsrs.gov for both fiscal year 2012 and fiscal year 2013.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 ($220,161,000)
93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-28 *Failure to Complete Disproportionate Share Hospital (DSH) Audits within Required Timeframes*

DHFS did not complete required audits of annual DSH allotments and payments to hospitals within the required timeframes.

The DSH program allows DHFS to provide additional payments to qualifying hospitals to provide additional help to those hospitals that serve a significantly disproportionate number of low-income patients. States receive an annual DSH allotment to cover the costs of eligible hospitals that provide care to low-income patients that are not paid by other payers, such as Medicare, Medicaid, the Children's Health Insurance Program (CHIP) or other health insurance. DHFS calculates each hospital's annual DSH allotment by estimating their costs to provide uncompensated care by using each hospital's most recent annual medical cost report and adjusting the uncompensated care costs in that report by inflation. Beginning in fiscal year 2011, federal regulations require that annual DSH allotments to qualifying hospitals receive an audit after the fact to ensure such payments were in compliance with the hospital-specific eligible uncompensated care cost limit regulations.

During our review of the DSH audits completed by DHFS, we noted the annual audits were not completed and submitted to USDHHS within the required timeframes. Specifically, we noted the following:

State Plan Year	Amount of DSH Payments	Deadline for DSH Audit	Audit Completion Date	Days Late
2005	$ 360,061,662	December 31, 2010	September 9, 2011	252
2006	$ 201,814,897	December 31, 2010	September 9, 2011	252
2007	$ 204,452,808	September 30, 2010	September 9, 2011	344
2008	$ 222,239,966	September 30, 2011	December 21, 2011	82

The federal statutes allow a transition period such that any overpayments identified in the results of the DSH audits for State Plan years 2005 to 2010 will not be given weight or required to be returned unless they call into question the uncompensated care cost estimates used for calculations of prospective DSH payments for State Plan year 2011 and thereafter. Because these audits were not completed until September 9, 2011, DHFS was not able to incorporate the following overpayments related to Medicaid inpatient and outpatient reimbursements identified into the uncompensated cost of care estimates for the 2011 or 2012 DSH payments:

State Plan Year	Amount of Inpatient/Outpatient Medicaid Payments	Amount of Inpatient/Outpatient Medicaid Cost of Care	Over (Under) Payment
2005	$ 1,787,289,173	$ 1,401,044,008	$ 386,245,165
2006	$ 1,457,995,453	$ 1,216,622,189	$ 241,373,264
2007	$ 1,535,236,531	$ 1,320,600,575	$ 214,635,956
2008	$ 1,542,112,111	$ 1,256,666,136	$ 285,445,975

Total DSH payments made to qualifying hospitals of the Medicaid Cluster totaled $220,177,981during the year ended June 30, 2012.

In accordance with 43 CFR 455.304(b), for State Plan rate years 2005 and 2006, a state must submit to USDHHS an independent certified audit report no later than the last day of calendar year 2009. Each subsequent audit beginning with State Plan rate year 2007 must be completed by the last day of the Federal fiscal year ending three years from the end of the state plan rate year under audit. Completed audit reports must be submitted to USDHHS no later than 90 days after completion. In addition, 42 CFR 544.304(e) states findings of state reports and audits for state plan years 2005–2010 will not be given weight except to the extent that the findings draw into question the reasonableness of state uncompensated care cost estimates used for calculations of prospective DSH payments for state plan year 2011 and thereafter.

In discussing these conditions with DHFS officials, they stated that the Department was unable to initiate a contract with the audit firm hired to conduct the DSH audits until December 1, 2010, due to delays in the procurement process.

Failure to complete DSH audits within the required timeframes inhibits the State's ability to monitor compliance with the hospital-specific uncompensated care cost limit requirements and may result in unallowable costs being charged to the program. (Finding Code 12-28)

Recommendation:

We recommend DHFS review its current process for completing annual DSH audits and consider changes necessary to ensure such audits are completed within the required timeframes.

DHFS Response:

The Department accepts the recommendation. DHFS met the deadline imposed by federal CMS for 2009.

(Continued)

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 ($140,937,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-29 *Failure to Amend the Public Assistance Cost Allocation Plan*

DHFS did not amend the allocation methodology defined in the Public Assistance Cost Allocation Plan (PACAP) for the Child Support Enforcement program.

DHFS administers federal and state programs to provide healthcare coverage for Illinois adults and children. In administering these programs, DHFS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, DHFS has prepared a Public Assistance Cost Allocation Plan (PACAP) describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by DHFS. DHFS has developed the methodologies for allocating costs to its programs, which DHFS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs during the quarter ended December 31, 2011, we noted the position Special Assistant for Child Support was not allocated to the Child Support Enforcement program in accordance with the approved PACAP. Upon further review, we noted the current job requirements of the position do not pertain to the Child Support program and are not consistent with the duties included in the approved PACAP cost allocation plan. Accordingly, DHFS did not claim these costs under the Child Support Enforcement program; however, the PACAP has not been amended to reflect these changes.

According to 45 CFR 95.517, a state must claim costs associated with a program in accordance with its approved cost allocation plan. According to 45 CFR 95.509, a state shall promptly amend the cost allocation plan if the procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure costs are properly allocated to its federal programs and changes to the cost allocation plan are made in a timely manner.

In discussing these conditions with DHFS officials, they stated that DHFS did not consider the temporary re-assignment of the employee noted in the finding as an organizational change requiring a plan amendment.

Failure to amend cost allocation methodologies in the PACAP may result in disallowances of costs. (Finding Code 12-29)

Recommendation:

We recommend DHFS implement procedures to ensure cost allocation methodologies prescribed in the PACAP are updated for change in job requirements.

DHFS Response:

The Department accepts the recommendation. DHFS submitted a cost plan amendment to the U.S. Department of Health and Human Services Division of Cost Allocation on March 1, 2013.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-30 *Failure To Perform Cash Draws in Accordance with the Treasury-State Agreement*

DHFS did not perform its cash draws in accordance with the funding techniques prescribed by the Treasury-State Agreement (TSA).

On an annual basis, the State of Illinois negotiates the TSA with the U.S. Department of the Treasury (the Treasury) which details, among other things, the funding techniques to be used for requesting federal funds. The TSA requires DHFS to draw program funds for medical payments under the Medicaid Cluster using the average clearance method. The average clearance method requires DHFS to request funding based upon the date the State anticipates program funds will be paid out (i.e., warrant clearance date). Based upon the State's most recently certified TSA, the average time of clearance for medical payments is 5 days.

During our testwork on 27 cash draws (totaling $957,386,468) for medical payments under the Medicaid Cluster, we noted DHFS requested cash based on a two day clearance pattern instead of the five day clearance pattern prescribed in the approved TSA.

Cash draws for Medical payments under the Medicaid Cluster totaled $4,213,087,181 during the year ended June 30, 2012.

According to 31 CFR 205.29 (d), if a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in 31 CFR 205.11, 31 CFR 205.12, or a Treasury-State agreement, the State may be denied payment or credit for the resulting Federal interest liability. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the TSA.

In discussing these conditions with DHFS officials, they stated that the Department had interpreted the clearance pattern days as a function of the State interest liability calculation and not as a specified day to draw funds.

Failure to draw funds in accordance with U.S. Treasury Regulations could result in the State being denied payment for reimbursements under the Medicaid Cluster. (Finding Code 12-30)

Recommendation:

We recommend DHFS implement procedures to ensure cash draws are performed in accordance with the TSA approved funding technique and clearance pattern.

DHFS Response:

The Department accepts the recommendation. DHFS will submit amendatory language to the U.S. Treasury to clarify our actual process with regard to the funding technique and interest calculation methodology for the specific portion of CFDA 93.778 program costs in the Treasury State Agreement.

State Agency: Illinois Department of Healthcare and Family Services (DHFS)

Federal Agency: US Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-31 *Inaccurate Reporting of Federal Expenditures*

DHFS did not accurately report Federal expenditures under the Medicaid Cluster, the Children's Health Insurance Program (CHIP), and Child Support Enforcement (CSE) programs.

DHFS inaccurately reported federal expenditures which were used to prepare the schedule of expenditures of federal awards (SEFA) to the Illinois Office of the Comptroller (IOC) using a combination of actual expenditures claimed during the fiscal year and an estimate based on revenues and receipts. Specifically, we noted the following differences for DHFS' major programs for the year ended June 30, 2012:

- DHFS erroneously reported $33.5 million of expenditures twice which resulted in an overstatement of the expenditures reported in the records used to prepare the SEFA.
- DHFS and Illinois Department of Human Services (IDHS) both reported $21.0 million of Medicaid expenditures which resulted in an overstatement of the expenditures reported in the records used to prepare the SEFA.
- DHFS erroneously identified $50.5 million of Medicaid expenditure as having been funded by the American Recovery and Reinvestment Act (ARRA) in the records used to prepare the SEFA. These expenditures were paid in the prior fiscal year and the period of availability for ARRA funded Medicaid expenditures ended in State fiscal year 2011; accordingly, they were required to be reported in 2011 as the State prepares the SEFA on a cash basis.

Additionally, we noted DHFS could not reconcile expenditures reported on the CMS-64 and CMS-21 (quarterly claim) reports for the Medicaid Cluster and CHIP program to expenditures reported on the SEFA.

According to OMB Circular A-133 §__.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the SEFA. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

In discussing these conditions with DHFS officials, they stated that that the breakout of ARRA expenditures occurred as a result of a misunderstanding of how ARRA receipts in 2012 affected the SEFA. The $33.5 million was caused by human error when the Department reported expenditures relative

to the ARRA receipts. The $21 million reported by IDHS was a change that was made after the DHFS reports had already been submitted.

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 12-31, 11-37)

Recommendation:

We recommend DHFS establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

DHFS Response:

The Department accepts the recommendation and agrees that procedures to accurately report federal expenditures should be developed. At this time, DHFS does not have control over other agencies reporting to the Illinois Office of the Comptroller. If DHFS is to be responsible for the total Medicaid Cluster reporting, then any changes made to other agency's financial reports must be reported to DHFS.

Auditors' Comment:

As the State Medicaid Agency, DHFS is responsible for overseeing the Medicaid program. We believe such oversight includes ensuring information reported on the SEFA for the Medicaid Cluster is in accordance with the requirements of OMB Circular A-133 and reconciles to financial reports submitted for the Medicaid program.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families
Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.558/93.714ARRA ($581,904,000)
93.658/93.658ARRA ($202,077,000)
93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-32 *Inadequate Monitoring of Subrecipients*

DCFS did not make required communications or perform fiscal and administrative on-site monitoring procedures for subrecipients who receive awards under the Temporary Assistance for Needy Families (TANF), Foster Care – Title IV-E (Foster Care), and Adoption Assistance programs.

DCFS passes through federal funding under the Foster Care and Adoption Assistance programs to not-for-profit organizations which assist the State in carrying out the State's responsibilities under these programs. Specifically, these organizations assist the State by: (1) performing and documenting on-going casework for children who are wards of the State, (2) providing training, licensing, and other supportive services for foster and adoptive parents, and (3) performing foster care and adoption placement services. The services provided by these organizations assist the State in determining the continuing allowability of maintenance and subsidy payments made to foster and adoptive families on the behalf of eligible children. Certain of these costs which are not claimed under or used as match for the Foster Care and Adoption Assistance programs are claimed for reimbursement under the TANF program.

During our testwork over the subrecipient monitoring compliance requirement for these programs, we noted DCFS determined that organizations previously identified as subrecipients should be considered vendors because the initial eligibility determinations for children served under these programs are performed by the State. However, the nature of the services provided by these organizations goes beyond those provided in a vendor relationship. These organizations assist the State in complying with program requirements relative to the allowability of costs and the continuing eligibility of program beneficiaries.

As a result of this determination, DCFS did not identify the amounts passed through to these entities as subrecipient expenditures on the State's schedule of federal awards or in award communications to these organizations. DCFS also did not perform fiscal and administrative on-site monitoring procedures over the programs operated by these organizations.

Amounts passed through to subrecipients of the TANF, Foster Care, and Adoption Assistance programs which were improperly reported as contractual services during the year ended June 30, 2012 were $42,846,000, $56,568,000 and $4,778,000, respectively.

According to OMB Circular A-133 section .210(b), characteristics indicative of a federal award received by a subrecipient are when the organization, among other things, has responsibility for programmatic decision making and uses the federal funds to carry out a program of the organization as compared to providing goods and services for a program of the pass-through entity. Additionally, according to OMB Circular A-133 section .210(c), characteristics indicative of a payment for goods and services received by a vendor are when the organization, among other things, provides goods or services that are ancillary to the operations of the program and are not subject to the compliance requirements of the federal program.

According to the OMB Circular A-133 section .400(d) and the OMB Circular A-133 Compliance Supplement, dated June 2012, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with DCFS officials, they stated that they disagree with the finding in light of the finding resolution letter received on April 5, 2013 from the Administration of Children and Family Services (ACF). We are in process of evaluating the letter with the auditors and ACF.

Failure to properly report subrecipient expenditures and monitor subrecipients results in noncompliance with OMB Circular A-133 and could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-32, 11-38, 10-37, 09-36, 08-39, 07-36, 06-34, 05-47, 04-36, 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

Recommendation:

We recommend DCFS properly report federal awards passed through to subrecipients and implement on-site monitoring procedures to review compliance requirements administered by subrecipients of its federal programs.

DCFS Response:

The Department agrees that federal awards should be properly reported and monitored. While the Department disagreed with the finding in fiscal year 2011 and the draft fiscal year 2012 finding, it is currently reviewing the response received from the federal agency and discussing the intention and conditions contained in the letter regarding the classification as vendors and assurances requested. The response received permits the Department to classify its providers as vendors and requests the Department to continue its current practices to monitor provider performance.

The Department continues to send notices to all providers considered to be program sub-recipients (the only subrecipients the Department had contracts with in State Fiscal Year 2012 were Family Preservation Service; Extended Family Service; and Adoption Preservation Service; none currently in Foster Care or Adoption programs) and notices are sent to all providers (including Foster Care and Adoption programs) for which an audit report is required (providers/agencies that receive over $150,000 during the State's fiscal year).

The Department's policy is that on-site fiscal and administrative reviews should and do include procedures that consider all compliance requirements direct and material to the programs funded by the Department and to ensure compliance with contract program plan requirements established for the services approved and being obtained for children.

The Department continues to conduct on-site monitoring of the substitute care providers who receive payments under the Foster Care, Adoption Assistance, and TANF programs and has never discontinued monitoring. Additionally, following receipt of information from the Department's OIG and the Governor's Office of Executive Inspector General regarding a former Director and one of the former providers contracted by DCFS, the Department conducted an audit of one specific provider. That audit identified issues that were the basis for changes to monitoring procedures and regular provider reporting practices. The Department has further assessed the issues identified and instituted additional steps to improve its fiscal monitoring of providers. Corrective action has been taken to close all gaps in internal control that allowed this instance of fraud to incur including:

- Implementation of Grant Recoveries Act requirements;
- Quarterly Monitoring of program expenditures compared to budget;
- Quarterly Monitoring of program metrics;
- Quarterly Monitor of Provider key Financial indicators; and
- Continuous Monitoring of Program monitors site visits.

Auditors' Comment:

As discussed in the finding above, DCFS determined amounts previously reported as subrecipient expenditures were vendor payments. As a result, DCFS did not identify the amounts passed through to these entities as subrecipient expenditures on the State's schedule of federal awards or in award communications. DCFS notes in their response that they have continued to perform a review of OMB Circular A-133 reports and perform programmatic procedures; however, since these organizations are not considered subrecipients they are not required to have audits performed in accordance with OMB Circular A-133 and we were unable to obtain a population of expenditures for testwork. Finally, consistent with the prior year, DCFS did not perform fiscal monitoring procedures.

As noted in DCFS' response, a federal resolution letter was received on April 5, 2013 which stated that the entities in question are considered subrecipients. The resolution letter also included guidance to DCFS which appears to conflict with subrecipient monitoring requirements includes in OMB Circular A-133 and the OMB Circular A-133 Compliance Supplement. Accordingly, all parties are in the process of seeking clarification. As of the date of our report, clarification has not been obtained.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-33 *Missing Documentation in Adoption Assistance Case Files*

DCFS could not locate case file documentation supporting the amount of the current subsidy payments for beneficiaries of the Adoption Assistance program.

During our testwork of 50 Adoption Assistance beneficiary payments (totaling $27,910), we reviewed case files for compliance with eligibility requirements and for the allowability of related benefits paid and noted documentation could not be located to support the current amount of subsidy payments. Specifically, we noted the case file for three beneficiaries (with sampled assistance payments of $3,091) did not agree to the amount of current subsidy payment and no further documentation was on file to support the amount of the subsidy payment. DCFS claimed reimbursement for adoption assistance benefits made on behalf of the children totaling $18,554 during the year ended June 30, 2012.

DCFS claimed reimbursement for adoption assistance beneficiary payments totaling $74,259,026 during the year ended June 30, 2012.

According to 42 USC 673 (a)(3), the amount of the payments to be made in any case should be determined through agreement between the adoptive parents and the State or local agency administering the program. States should take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including signed adoption subsidy agreements.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure current adoption subsidy agreements are properly maintained in case records.

In discussing these conditions with DCFS officials, they stated that adoption agreements for the three children support beneficiary payments totaling $32,296 for the year. Documentation supporting the increases in rates over the adoption agreements was inadvertently misplaced.

Failure to maintain case file documentation, including documentation supporting the amount of the subsidy paid, may result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 12-33, 11-39, 10-38, 09-35, 08-38, 07-34, 06-32, 05-44)

Recommendation:

We recommend DCFS review its procedures for retaining current adoption subsidy agreements and implement changes necessary to ensure such agreements are maintained as required by program regulations.

DCFS Response:

The Department agrees that the amount on the subsidy is different from the payment amount in these 3 cases and that rate changes should be the result of amended agreements. The Department has initiated a review of procedures for retentions of subsidy agreements, procedures followed where payment rates are entered in the system on newly opened subsidy cases, processes where historical rate information is retained, and on access rights over the ability to enter and make rate changes. Also, the Department will add an additional layer of oversight on rate amendments.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-34 *Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis*

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

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. A child's eligibility for the program is determined initially at the time of the adoption proceedings. However, it is the State's responsibility to establish a process to ensure that children on behalf of whom the State is making subsidy payments are in the continued care of their adoptive parent(s). On a biannual basis, the State sends a recertification form to the adoptive parent(s) of a child on behalf of whom the parent is receiving adoption subsidy payments. The form contains a series of questions concerning the parents' legal and financial responsibility of the child. The adoptive parents must answer the questions, sign and return the form to DCFS to demonstrate their continued legal and financial responsibility over the child.

During our testwork of 50 recurring subsidy payments (totaling $27,910) made under the Adoption Assistance program, we noted four case files (with sampled payments of $1,813) in which DCFS could not locate a recertification form submitted by the adoptive parent(s) within the most recent period. DCFS claimed reimbursement for adoption assistance benefits made on behalf of these children totaling $21,989 during the year ended June 30, 2012.

DCFS claimed reimbursement for adoption assistance beneficiary payments totaling $74,259,026 during the year ended June 30, 2012.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

According to 42 USC 673 (a)(4), payments are discontinued when the state determines that the adoptive parents are no longer legally responsible for the support of the child. Parents must keep the state agency informed of circumstances which would make the child ineligible for adoption assistance payments, or

eligible for assistance payments in a different amount. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to obtain adoption recertification forms on a timely basis.

In discussing these conditions with DCFS officials, they stated that while there is no Federal statute or provision requiring annual renewals, recertifications or eligibility re-determinations for title IV-E adoption assistance, they believe it is a good business practice.

Failure to complete the necessary eligibility recertification could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 12-34, 11-40, 10-39, 09-37, 08-41, 07-39, 06-36)

Recommendation:

We 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.

DCFS Response:

The Department agrees that annual recertification is a good business practice and is implementing additional procedures to ensure reporting to the Post-Adoption Unit and the reporting of follow-up is completed. Recertification letters are sent out via an automated process. If the first letter is not returned, a second letter is automatically mailed 30 days later. If the second letter was not returned, notification of these cases is sent to the Post-Adoption Unit for further follow up. Although the Department has greatly improved compliance in this area, there remains the obligation to continue monitoring of the process that has been successfully developed. Additionally, we will re-look at our procedures and work with its Office of Information Technology Services to review the logic related to generation of recertification notices for older subsidy recipients.

The Department plans to continue the procedure. Even though recertification is not a Title IV-E federal program compliance requirement, at this time, the Department plans to continue the procedure as a part of a process to confirm their eligibility for a Medicaid card.

Auditors' Comment

We respectfully disagree with DCFS' response. The procedures relative to the recertification forms are included in the State Plan for the Adoption Assistance program and federal regulations require the State to follow the provisions of its State Plan.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.658/93.658ARRA ($202,077,000)
93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-35 *Failure to Obtain Suspension and Debarment Certifications from Providers*

DCFS did not obtain required certifications that providers and vendors were not suspended or debarred from participation in Federal assistance programs for the Foster Care and Adoption Assistance Programs.

During our review of 25 providers and 25 vendors of the Foster Care and Adoption Assistance programs, we noted DCFS did not include a suspension and debarment certification in any of the agreements of its provider or vendor agreements. As a result, DCFS did not obtain a certification that these organizations were not suspended or debarred from participation in Federal assistance programs. Additionally, DCFS did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for any of these organizations.

Payments to providers allocated to the Foster Care and Adoption Assistance programs totaled $56,567,819 and $4,778,479, respectively, during the year ended June 30, 2012. Payments to vendors allocated to the Foster Care and Adoption Assistance Programs totaled $6,983,751 and $814,935, respectively, during the year ended June 30, 2012.

According to 45 CFR 74.13, subawards and contracts with parties that are debarred, suspended or otherwise excluded from or ineligible for participation in the Federal assistance programs or activities under Executive Order 12549 and 12689, "Debarment and Suspension" are prohibited. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are obtained and contracts are not made with a debarred or suspended party.

In discussing these conditions with DCFS officials, they stated that in 2012 and previous years, the Department used the Central Contractor Registration Screen (CCR) instead of the Excluded Party List System and relied on the provider's debarment certification which was included as a part of the provider's contract.

Failure to perform verification procedures with the EPLS could result in the awarding of Federal funds to organizations that are suspended or debarred from participation in Federal assistance programs. (Finding Code 12-35, 11-44)

Recommendation:

We recommend DCFS establish procedures to ensure that providers and vendors receiving federal funds from DCFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

DCFS Response:

The Department agreed with the recommendation and implemented new procedures in July 2012 and in May 2013. Beginning with the fiscal year 2013 contract cycle, the Department's process was changed to verify with the new federal SAM system (System for Award Management) for both the CCR information (former CCR system) and the Excluded Party Listing information (former EPLS system). That new federal system became operational in July 2012. DCFS's new procedure is to verify before awarding the contract to a perspective vendor and before a major modification is awarded and procedures include maintaining evidence (proper audit trail) of those checks within the contract files. Additionally, for fiscal year 2014, the Contract boilerplate for DCFS providers has been revised based on federal requirements that exclude the time limitations contained in the Illinois Procurement Code.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.658/93.658ARRA ($202,077,000)
93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-36 *Failure to Perform Cash Draws in Accordance with the Treasury-State Agreement*

DCFS did not perform its cash draws in accordance with the funding technique prescribed by the Treasury-State Agreement (TSA).

On an annual basis, the State of Illinois negotiates the TSA with the U.S. Department of the Treasury (the Treasury) which details, among other things, the funding techniques to be used for requesting federal funds. The TSA requires DCFS to draw funds in monthly installments (on the median day of the month) equal to 1/3rd of the quarterly grant awards for the Foster Care and Adoption Assistance programs. During our testwork over cash draws performed for the Foster Care and Adoption Assistance programs, we noted DCFS drew funds four times during the year for each program on dates other than the median day of the month. These draws were in varying amounts which is not consistent with the requirements of the TSA.

According to section 6.3.1 of the Treasury-State Agreement for the period July 1, 2011 through June 30, 2012, the State is required to apply the funding techniques documented in section 6.3.2 to the federal assistance programs covered by the agreement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the TSA.

In discussing these conditions with DCFS officials, they stated that the agency is doing everything necessary to minimize interest liability to the federal government and making draws in compliance with the CMIA criteria specified in the grant award.

Failure to draw funds in accordance with the TSA results in noncompliance with U.S. Treasury regulations. (Finding Code 12-36, 11-42)

Recommendation:

We recommend DCFS implement procedures to ensure cash draws are performed in accordance with the TSA or amend the TSA to reflect cash draw request practices.

DCFS Response:

The Department agrees with the recommendation and through the Division of Budget and Finance has tightened policies to ensure going forward that the funds will be drawn on the median day of the month. While the Department recognizes that the TSA, which is required under the CMIA, is written to address grants, not draw downs related to reimbursements, the Division of Budget and Finance has been prioritizing the Cash Management Improvement Act (31 CFR Part 205) which stipulates that Federal Funds only be drawn to meet actual and immediate program needs. We are currently reviewing the language of the State's TSA with the Governor's Office of Management and Budget to make the Department's procedures consistent with and to modify the TSA; we will also modify our procedures when making draws to be consistent with a revised TSA.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.658/93.658ARRA ($202,077,000)
93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-37 *Untimely Reporting of Subawards in Accordance with FFATA*

DCFS did not report information required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Foster Care – Title IV-E (Foster Care) and Adoption Assistance programs within required timeframes.

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to $25,000 for federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the subaward agreement was signed, and (5) the subaward or other identifying number assigned by the State. This information is required to be submitted no later than the last day of the month following the month in which the subaward or modification was made.

During our testwork, we noted DCFS awards contracts to providers (subrecipients) of the Foster Care and Adoption Assistance programs on an annual basis. The amounts to be paid under each federal and state program covered by these contracts are estimated based upon the provider's expected caseload, historical performance, and other factors. During our testwork over contracts subject to FFATA reporting requirements, we noted DCFS did not report any of the contracts within required timeframes. Specifically, we noted there were ten subawards required to be reported under FFATA in fiscal year 2012 which were executed in late June 2010 and were not reported until October 2011 (when final contract amounts were known).

In addition, during our review of the amounts reported for the five contracts identified above, we noted the amount of the subaward originally reported ($20,380,323) did not agree to the amounts actually passed through ($12,379,410) to the sampled subrecipients.

According to 2 CFR 170, a pass through entity is required to report certain identifying information for each subaward of federal funds greater than or equal to $25,000 by the end of the month following the month of the award. In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures to ensure subawards are properly reported in accordance with FFATA and amounts reported agree to the State's records.

In discussing these conditions with DCFS officials, they stated that guidance on the reporting requirements relative to the Foster Care and Adoption Assistance programs has not been clear. Because these awards are posted quarterly versus annually on the reporting system by USDHHS and amounts to be claimed for reimbursement are only known after the completion of the respective quarter, DCFS reports each quarter after the claim has been determined. DCFS stated they are unable to report contract obligations made for the entire year at the start of each fiscal since they are based on state funded appropriations not federal awards of which only a portion may be federally reimbursed after the service has been provided, paid for, and federally claimed. DCFS believes it would be inaccurate to label state obligations prior to service delivery, payment and claim determination as obligations on the FFATA reporting system.

Failure to accurately report subawards in a timely manner in accordance with FFATA inhibits the ability of USDHHS to properly monitor and evaluate the performance of the programs. (Finding Code 12-37)

Recommendation:

We recommend DCFS implement procedures to ensure subawards are accurately reported within timeframes required by FFATA.

DCFS Response:

The Department agrees that information required by the Federal Funding Accountability and Transparency Act should be reported and will continue to seek direction from the federal government of how best to meet their expectations. The Department will continue discussions with the auditor as more information on reporting requirements is available to arrive at a consistent reporting criteria. While we are reporting actual expenditures after filing a claim which is our best estimate of the quarterly obligations, we will continue to seek a method whereby we would be able to report obligations within the time limits required by FFATA.

The federal agency posts DCFS foster care and adoption assistance awards quarterly (after the awards are made) and we can only report for the subawards after the federal awards are posted on the reporting system (the data in the FFATA system is pre-populated only when the federal agency posts the awards). According to the FSRS Awardee Guide, "In order for you to file a FFATA subaward report against your grant (or contract), your Federal grant making official must report your prime grant award information through their FAADS . . . the FAADS submission is the authoritative source for the basis grant award information used to pre-populate many of the prime award details in your FFATA report."

If we are to report the Department's obligation to providers for each contract at the beginning of our fiscal year, the federal agency will need to post the awards on the website for us at the start of the fiscal year. Additionally, the Federal Funding Accountability and Transparency Act only requires the reporting of obligations; it does not require reporting of expenditures. The federal awards we receive each quarter are the reimbursements for foster care and adoption assistance program expenditures.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Child Welfare Services – State Grants

CFDA # and Program Expenditures: 93.645 ($10,812,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-38 *Failure to Ensure Timely Preparation of Initial Case Plans*

DCFS did not prepare initial case plans in a timely manner for Child Welfare Services beneficiaries.

The case plan serves as DCFS' written documentation of the services planned for each child taken into protective custody. The case plan describes DCFS' plans to improve or protect the welfare of the child. Information documented in the case plan includes the health and education records of the child, a description of the type of home or institution in which the child is to be placed, DCFS' plan for assuring the child receives safe and proper care and services to improve the condition of the child's home in order to facilitate his or her return home, as well as other pertinent information.

During a review of 40 case files selected for testwork, we noted seventeen of the initial case plans were completed within a range of one to 126 days over the 60 day federal requirement.

According to 45 CFR 1356.21(g)(2), case plans are required to be developed within a reasonable period, to be determined by the State, but no later than 60 days from the child's removal from their home. Per State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable timeframe as 45 days.

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

Failure to prepare case plans in a timely manner could result in Child Welfare Services not being performed/provided in accordance with Title IV-E or the State law. (Finding Code 12-38, 11-46, 10-42, 09-39, 08-40, 07-38, 06-37, 05-51, 04-37, 03-35, 02-33, 01-20, 00-20, DCFS 99-5)

Recommendation:

We recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements.

DCFS Response:

The Department agreed with the recommendation and continues to stress the importance of adequate and timely documentation for child case files through training and communications to all case staff. Trainings

are used to remind case staff of the importance and need for timely completion of the initial case service plan. Through regular and reinforcement trainings, we stress the importance of adequate and timely case planning as a key component of providing quality service to children.

A change in the automated case file system was implemented on Saturday, April 27, 2013. With this SACWIS 5.0 implementation, completion of the case service plan will no longer be delayed due to the integrated assessment not being completed. SACWIS 5.0 notes and trainings include instructions for case staff on the timely completion of service plans. Timelier completion is of the initial case plan is expected for the last two months of fiscal year 2013 and for fiscal year 2014 which should help meet the state and federal requirements.

An additional component of the new SACWIS 5.0 implementation is the availability of management reports identifying the timeliness of initial service plans, among other things, that is expected to improve the Department's compliance with on-time initial service plan completions.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.658/93.658ARRA ($202,077,000)
93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-39 *Inadequate Supervisory Review of Cash Management Reconciliations*

DCFS does not have adequate procedures in place to ensure monthly cash reconciliations are properly completed.

Each State agency initiates federal cash requests and maintains financial records to document vouchers approved for payment. The Illinois Office of the Comptroller (IOC) maintains the State's official accounting records and issues payments on behalf of the State. In order to ensure transactions are accurately reflected in the State's accounting records, each State agency is required to reconcile its records to those of the IOC on a monthly basis and verify the propriety of any reconciling items. Since federal cash requests are generally performed based upon the financial records of the State agency, these reconciliations provide evidence that vouchers have been processed for payment by the IOC as expected by the State agency.

During our testwork of two monthly reconciliations between the records of DCFS and the IOC, we noted the cash balances identified on the December 2011 reconciliation did not appear to agree or reconcile. Upon further review, we noted the difference between these amounts were the results of a mathematical error on the reconciliation. Once the mathematical error was corrected, the Balance per DCFS reconciled to the Balance per the IOC. Although a supervisory review appears to have been documented, the errors identified in our procedures were not identified during this review.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure reconciliations are properly prepared and supervisory review procedures are in sufficient detail to identify potential errors.

In discussing these conditions with DCFS officials, they stated that this was a onetime error that had not previously occurred. The report generated from the data base containing the data from which the detail was pulled failed to list all detail yet the total was correct. Since that time, the error has not re-occurred.

Failure to properly reconcile agency balances with the IOC and to adequately perform supervisory review procedures inhibits the ability of DCFS to accurately assess the cash position of its federal programs. (Finding Code 12-39)

Recommendation:

We recommend DCFS review its procedures over monthly cash reconciliations and implement the procedures necessary to ensure reconciliations are complete, accurate, and adequately reviewed.

DCFS Response:

The Department agreed with the recommendation and has reviewed and implemented procedures to make sure the monthly reconciliations are complete, accurate and reviewed; and, the reviewer was retrained on the duties and responsibilities for the task. A desk review worksheet will be prepared and used by the reviewer as part of the revised review process. The preparer and the reviewer will sign off on the reconciliation and maintain it for an appropriate period.

State Agency: Illinois Department of Children and Family Services (DCFS)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families
Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.558/93.714ARRA ($581,904,000)
93.658/93.658ARRA ($202,077,000)
93.659/93.659ARRA ($83,461,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-40 *Inadequate Controls over Information Systems*

DCFS does not have adequate program access and change management controls over systems used to document beneficiary eligibility determinations or to record program expenditures.

DCFS utilizes a federal claiming system to determine which expenditures can be claimed under the various federal programs. The system queries the general ledger and eligibility database in order to match expenditures to a beneficiary. Based on the eligibility of the beneficiary, the expenditure is further analyzed by the claiming system for allowability under the federal program for which the beneficiary is eligible. The claiming system applies the applicable eligibility percentage to the expenditure established for the program. Reports generated from the system are used to calculate the amount of expenditures claimable for federal reimbursement and to prepare the quarterly claim reports.

During our testwork over changes made to DCFS' claiming system and related general ledger and eligibility databases, we noted DCFS was not able to generate a list of changes made to these information systems. DCFS' current change management procedures include tracking changes made to its information systems in a database; however, the information input into the database is based on manual change request forms. Accordingly, we were unable to determine whether the list of changes provided by DCFS from the database during our audit was complete.

In addition, we noted DCFS does not have procedures in place to review access rights for users at subrecipient organizations who have been contracted to assist DCFS in performing and documenting case work. DCFS' IT policies do not currently address users with organizations outside of DCFS.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with DCFS officials, they stated that DCFS has the ability to generate, upon request, a list of all programs that were changed and any selected detail requested. Additionally, the

Department contractually requires all organizations contracted with DCFS to follow their policies and procedures. DCFS procedures dictate that they be notified within 24 hours that an individual has left an agency.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 12-40)

Recommendation:

We recommend DCFS implement policies and procedures to: (1) ensure access to its information systems are adequately secured, (2) address processes relative to users employed by an organization outside of the State, and (3) to generate a list of program changes from its information systems and applications.

DCFS Response:

The Department accepts the recommendation and will commit to generating the time and date stamp list on the libraries that can be used to produce a list of programs changed during a selected audit period.

The Department acknowledges the benefit of performing formal reviews of user access rights on a periodic basis. DCFS will create a process to automatically produce an employee access listing monthly to be sent to contractual supervisors requesting that they initiate any required access changes. The procedure will then be formalized in our security policy.

State Agency: Illinois Department on Aging (IDOA)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053 ($40,157,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-41 *Inadequate Documentation of On-Site Monitoring of Subrecipients*

IDOA is not adequately performing and documenting on-site monitoring procedures for subrecipients receiving federal awards for the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. Each of these agencies works with IDOA to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the Aging Cluster programs. IDOA has established policies and procedures for monitoring its subrecipients, which include: performing evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary. Additionally, IDOA performs on-site programmatic monitoring procedures on the Advisory Councils for each area agency once every three years. The Advisory Councils were established to advise the area agencies on matters relating to the development and administration of the area plans, but are not responsible for the direct administration of the program benefits.

In fiscal year 2012, IDOA implemented procedures for conducting on-site monitoring reviews and performed reviews for five subrecipients. IDOA has developed a standard checklist which is required to be completed for each monitoring visit. The checklist is supplemented by workpapers detailing the specific items tested by the on-site reviewer and the results of the procedures performed. During our testwork of on-site reviews performed in fiscal year 2012 for four subrecipients (with expenditures of approximately $5,892,000), we noted the following:

- The on-site monitoring checklist and supporting workpapers were not available for one subrecipient review tested.
- The on-site monitoring checklists prepared for three of the reviews tested were incomplete. Specifically, we noted several sections of the checklists for these subrecipients did not contain any indication whether the procedures were performed or why they were not applicable. Additionally, workpapers were not prepared or contained limited information for several areas reviewed.

Total awards passed through to subrecipients of the Aging Cluster were approximately $37,996,000 during the year ended June 30, 2012.

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are

achieved. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure on-site reviews are adequately documented.

In discussing these conditions with IDOA officials, they stated that the staff participating in the on-site reviews were not familiar with the process and were not aware of the requirement to complete the review tools in their entirety.

Failure to adequately document subrecipient monitoring procedures 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 annual area plan. (Finding Code 12-41)

Recommendation:

We recommend IDOA implement procedures to ensure on-site reviews of Aging Cluster subrecipients are adequately documented.

IDOA Response:

Agree: The Department will develop and implement procedures to ensure that on-site reviews are adequately documented.

State Agency: Illinois Department on Aging (IDOA)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053 ($40,157,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-42 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOA did not issue management decisions on OMB Circular A-133 findings for subrecipients of the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. IDOA requires subrecipients expending more than $500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IDOA staff are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IDOA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, IDOA staff is responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on reported findings within the prescribed timeframe.

During our testwork over OMB Circular A-133 audit reports for four subrecipients of the Aging Cluster (with total expenditures of approximately $23,567,000), we noted the A-133 audit report for one subrecipient reported instances of noncompliance and control deficiencies for which IDOA did not issue a management decision. Amounts passed through to this subrecipient under the Aging Cluster approximated $13,602,000 during the year ended June 30, 2012.

Total awards passed through to subrecipients of the Aging Cluster were approximately $37,996,000 during the year ended June 30, 2012.

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated June 2012, a pass-though entity is required to 1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDOA officials, they stated that staff were not aware of the requirement to issue management decision letters for findings that were not specific to Area on Aging programs.

Failure to issue management decisions for program findings results in noncompliance with OMB Circular A-133 and may result in subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-42, 11-48, 10-44, 09-41, 08-43, 07-41, 06-39)

Recommendation:

We recommend IDOA establish procedures to ensure that management decisions are issued in accordance with OMB Circular A-133.

IDOA Response:

Agree. The Department will review all findings included in sburecipient A-133 reports to ensure that a letter of determination is issued for any findings related to the administation of Department on Aging programs.

State Agency: Illinois Department on Aging (IDOA)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053 ($40,157,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-43 *Inadequate Cash Management Procedures for Subrecipients*

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.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. During the first three quarters of State fiscal year 2012 (7/1/11 to 3/31/12), IDOA subrecipients requested monthly cash advances based upon estimated accrual expenditures. IDOA disbursed estimated accrual expenditures for the requested period not exceeding $1/12^{th}$ of the subrecipient's grant award. Each subrecipient was required to maintain the federal funds in an interest bearing account. Upon close out of the grant, the subrecipients certify and remit the interest earned back to IDOA. Effective after the 3^{rd} quarter, IDOA revised the monthly cash request form and procedures for subrecipients (AAAs) per the Manual Release 12-01 dated November 10, 2011 to assist in creating a more accurate projection of the 30 day advanced funding policy. The new methodology issues subrecipient payments on a reimbursement basis after an initial working federal capital cash advance. IDOA plans to conduct periodic visits to the 13 AAAs to check and confirm that expenditure documentation exists and is maintained to verify and support the cash requests and program income information submitted to the Department.

During our test work, we noted that IDOA required its subrecipients to prepare a quarterly reconciliation of their net cash position for the first three quarters of State fiscal year 2012; however, IDOA did not reduce a subrecipient's cash advance if the reconciliation identified the subrecipient has excess cash on hand. As a result, subrecipients remitted approximately $3,321 in interest earned on excess federal funds to IDOA. Additionally, IDOA did not have a process in place to determine if the interest remitted is reasonable.

Effective in June 2012, IDOA discontinued obtaining quarterly reconciliations from its subrecipients and developed procedures to monitor cash draw requests and interest earnings during its on-site reviews; however, these procedures have not been implemented as of the date of our testing (August 3, 2012).

When funds are provided in advance of expenditures, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Specifically, 45 CFR 92.21 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal

control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient's cash position prior to advancing program funds.

In discussing these conditions with IDOA officials, they stated that a new cash draw process was implemented in February 2012 that will ensure that cash on hand is limited to the subrecipient's immediate cash needs.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 12-43, 11-49, 10-46, 09-42, 08-44, 07-42, 06-41)

Recommendation:

We 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.

IDOA Response:

Agree: The Department initiated new procedures for cash requests beginning October 2011 to coincide with the start of the new federal fiscal year. However, the AAAs were not able to comply with the new procedures until February 2012. The Department continues to review quarterly reports and reconcile those reports to the subrecipient cash draw requests and the cash position monitoring tool. Additionally, cash draws are reconciled to the subrecipient's books of account during on-site monitoring visits. Implementation of these procedures has resulted in a significant decrease in the amount of interest earned on excess federal funds.

State Agency: Illinois Department of Public Health (IDPH)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Immunization Cluster

CFDA # and Program Expenditures: 93.268/93.712ARRA ($111,139,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-44 *Inadequate Monitoring of Immunization Providers*

IDPH is not adequately monitoring providers under the Immunization Cluster program.

IDPH receives the majority of its federal Immunization Cluster program funding in the form of vaccines which are distributed to medical providers throughout the State. Providers receiving vaccines under the Immunization Cluster program are responsible for determining whether vaccine recipients meet program eligibility requirements, ensuring vaccines are properly maintained, accounted for, and safeguarded, and documenting the administration of vaccines in each recipient's permanent medical file. IDPH is responsible for enrolling providers in the program and periodically reviewing the records of its providers to ensure the program requirements are being met.

During our testwork over 65 providers (receiving vaccines valued at $5,202,896 during the year ended June 30, 2012) of the Immunization Cluster program, we noted the following:

- Monitoring reviews performed for five providers (receiving vaccines valued at $51,541 during the year ended June 30, 2012) did not include procedures to review medical records evidencing that vaccine recipients met program eligibility requirements.
- Corrective action plans were not obtained for two providers (receiving vaccines valued at $43,427) who had findings identified in on-site monitoring reviews performed by IDPH.
- Corrective action plans were not evaluated or acknowledged as acceptable for one provider (receiving vaccines valued at $32,106) who had findings identified in an on-site monitoring review performed by IDPH.

IDPH passed through vaccines valued at $104,108,835 during the year ended June 30, 2012 to providers of the Immunization Cluster program.

According to 42 USC 300AA-25, a record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request). According to the A-133 Compliance Supplement, dated June 2012, the State is required to perform procedures to ensure immunization records are appropriately documented by medical providers receiving vaccines under the Immunization Cluster program. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring all monitoring findings are communicated to providers, corrective action plans are obtained for any deficiencies identified, and

follow up procedures are performed. Effective internal controls should also include ensuring medical records are adequately reviewed and documented for all providers of the Immunization Cluster program.

In discussing these conditions with IDPH officials, they stated that IDPH is not adequately monitoring providers under the Immunization Cluster program.

Failure to adequately monitor providers of the Immunization Cluster program could result in vaccines being used for unallowable purposes and providers not properly administering the program in accordance with laws, regulations, and the grant agreement. (Finding Code 12-44, 11-50)

Recommendation:

We recommend IDPH review its monitoring procedures for providers of Immunization Cluster program and implement changes necessary to ensure corrective action plans are obtained and evaluated for all deficiencies identified in provider reviews.

IDPH Response:

The Department concurs with the finding and recommendation. New procedures have been put into place and the Illinois Vaccines For Children (VFC) program providers have been notified of newly revised guidance from CDC on documenting patient eligibility. An audit and review of patient records to establish VFC eligibility is now required with all VFC compliance visits. Copies of these chart reviews to assure appropriate eligibility screening are obtained and maintained as part of the provider site visit documentation. Any and all items identified during provider visits (enrollment visit, storage and handling visit or compliance visit) that are not fully compliant with VFC program requirements must be documented in a corrective action report and signed by provider staff.

State Agency: Illinois Department of Public Health (IDPH)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Public Health Emergency Preparedness
Centers for Disease Control and Prevention – Investigations and Technical Assistance
HIV Care Formula Grants

CFDA # and Program Expenditures: 93.069 ($22,261,000)
93.283 ($12,122,000)
93.917 ($43,400,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-45 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPH does not have an adequate process for ensuring subrecipients of the Public Health Emergency Preparedness (PHEP), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance), and HIV Care Formula Grants programs have complied with OMB Circular A-133 audit requirements.

IDPH requires subrecipients expending more than $500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IDPH finance staff are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records; and (3) Type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, finance staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, or adverse) and issuing management decisions on findings reported within required timeframes.

During our testwork over 45 subrecipients (26 for PHEP, 10 for CDC Investigations and Technical Assistance and 9 for HIV Care Formula Grants) of the PHEP, CDC Investigations and Technical Assistance, and HIV Care Formula Grants program with expenditures totaling $7,214,264, $2,064,403 and $4,961,017, respectively, during the year ended June 30, 2012, we noted the following:

- For one subrecipient of the PHEP program (with expenditures totaling $65,516 during the fiscal year), and one subrecipient of the HIV Care Formula Grants program (with expenditures totaling $42,484 during the fiscal year), A-133 audit reports were not obtained within nine months. We noted that there was no evidence IDPH performed procedures to obtain the delinquent reports and the reports had not been obtained as of the date of our testing (August 1, 2012).
- For one subrecipient of the PHEP program (with expenditures totaling $74,824 during the fiscal year), a desk review had not been performed over the single audit report as of the date of our testing (August 1, 2012).

(Continued)

- For one subrecipient of CDC Investigations and Technical Assistance program (with expenditures totaling $679,228 during the fiscal year) and two subrecipients of the HIV Care Formula Grants program (with expenditures totaling $700,469 during the fiscal year), the A-133 reports were received between 11 and 97 days after the nine month deadline. We also noted there was no evidence IDPH performed follow up procedures to obtain the delinquent reports.

Additionally, we noted that a standard desk review checklist was not used to document the review of subrecipient A-133 reports received from subrecipients of the Public Health Emergency Preparedness, CDC Investigations and Technical Assistance, and the HIV Care Formula Grants programs 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 reconciled to IDPH records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

Subrecipient expenditures under the federal programs for the year ended June 30, 2012 were as follows:

Program	Total Fiscal Year 2012 Subrecipient Expenditures	Total Fiscal Year 2012 Program Expenditures	Percentage
Public Health Emergency Preparedness	$13,679,000	$22,261,000	61.4%
CDC Investigations and Technical Assistance	$7,323,000	$12,122,000	60.4%
HIV Care Formula Grants	$35,382,000	$43,400,000	81.5%

According to OMB Circular A-133 §___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated June 2012, a pass-though entity is required to 1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDPH officials, they stated that IDPH does not have an adequate process for ensuring subrecipients of the Public Health Emergency Preparedness (PHEP), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance), and HIV Care Formula Grants programs have complied with OMB Circular A-133 audit requirements.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not

properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-45, 11-51, 10-49 ,09-44, 08-48, 07-45, 06-46, 05-56)

Recommendation:

We recommend IDPH establish procedures to ensure all subrecipients receiving federal funds 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 includes procedures to determine whether the audit reports meet the 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.

IDPH Response:

The Department concurs with the finding and recommendation. The Department will continue to review audit reports for compliance and monitor receipt of audit reports from its subrecipients. The Department has become more diligent in its follow up as evidenced by the significant lessening of any missing or late audit reports. The Department continues to support efforts to consolidate the A-133 audit review function across human services State agencies as recommended in Public Act 96-1141. This consolidation would provide adequate resources and consistency across impacted State agencies in the review and documentation of A-133 audits.

(Continued)

State Agency: Illinois Department of Public Health (IDPH)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Public Health Emergency Preparedness Program

CFDA # and Program Expenditures: 93.069 ($22,261,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-46 *Inadequate Monitoring of PHEP Subrecipients*

IDPH does not sufficiently perform on-site reviews of subrecipients receiving federal awards under the Public Health Emergency Preparedness (PHEP) program.

IDPH passes through PHEP program funding to various local health departments for developing and upgrading state and local response systems for threats from terrorism, pandemic influenza, and other public health emergencies. The awards provided to subrecipients are a combination of cash grants and non-cash awards in the form of vaccines. Subrecipients are also required to provide matching funds from non-federal sources to assist the State in meeting the PHEP program's match requirement.

During our testwork of nine subrecipients of the PHEP program, we noted IDPH monitors subrecipients of the PHEP program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a periodic basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of its PHEP subrecipients. IDPH also has not established procedures to monitor the matching amounts reported by subrecipients to ensure the expenditures reported by the subrecipients meet general allowable cost requirements or PHEP program specific requirements.

Total federal awards passed through to subrecipients of the PHEP program were approximately $13,679,000.

According to OMB Circular A-133___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are designed to monitor all applicable compliance requirements and fiscal controls.

In discussing these conditions with IDPH officials, they stated that IDPH does not sufficiently perform on-site reviews of subrecipients receiving federal awards under the PHEP program.

Failure to adequately monitor subrecipients could result in federal or matching funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 12-46, 11-52, 10-48)

Recommendation:

We recommend IDPH revise the on-site monitoring procedures to include procedures to review each applicable compliance requirement and the fiscal and administrative controls of its subrecipients. IDPH should also evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes.

IDPH Response:

The Department concurs with the finding and recommendation.

The Department has developed on-site monitoring procedures to review each applicable compliance requirement and the fiscal and administrative controls of subrecipients. Procedures have also been established to monitor the matching amounts reported by subrecipients to ensure the expenditures reported by the subrecipients meet general allowable costs requirements. A fiscal staff member allocates a portion of their time to perform on-site fiscal reviews. The Department is not currently staffed to perform on-site fiscal compliance reviews for all subrecipients annually, but to date, has performed six on-site fiscal reviews. The on-site fiscal compliance monitoring program was implemented January 1, 2012.

(Continued)

State Agency: Illinois Department of Public Health (IDPH)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,729,079,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-47 *Failure to Investigate Provider Complaints within Required Timeframes*

IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required timeframes.

The Office of Health Care within IDPH is responsible for receiving and investigating complaints received against providers of the Medicaid Cluster. State laws require the Office of Health Care to investigate complaints within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within seven days of receipt. As the timeframes for complaint investigations included in the State's laws are more stringent than those included in the federal Medicaid regulations, the State timeframes are required to be followed.

During our testwork over 40 complaints filed against Medicaid providers during the year ended June 30, 2012, we identified nine complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from 8 to 75 days in excess of required timeframes. Additionally, we identified two complaints that had not been investigated as of the date of our testwork. As of the date of our testwork, the timeframes for investigation into these complaints were 91 and 120 days in excess of required timeframes.

According to Section 5010 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, each state is expected to have written policies and procedures to ensure that the appropriate response is taken for each complaint received against providers. Among other things, these policies and procedures are required to include timelines for investigating complaints which are at least as stringent as those included in federal regulations. Additionally, the Nursing Home Care Act (210 ILCS 45/3-702(d)) requires complaints to be investigated within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt.

In discussing these conditions with IDPH officials they stated that IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required timeframes.

Failure to investigate complaints against Medicaid providers within required timeframes may prevent the State from identifying and correcting health and safety violations and from protecting the welfare of Medicaid beneficiaries. (Finding Code 12-47, 11-54, 10-52, 09-47, 08-53, 07-48)

Recommendation:

We 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.

IDPH Response:

The Department concurs with the finding and recommendation.

The Department has hired over 60 new nurse positions and is in the process of hiring additional survey staff for the investigation of complaints of abuse and neglect to meet the required federal timeframes. Until all new staff have been hired and trained, existing staff have been assigned to reduce the backlog of complaints and the Department has implemented a complaint team to focus on complaints only. This complaint team has made a significant impact reducing the number of complaints that fall outside of the required federal time frames. The Department will continue to emphasize the importance that complaints will be investigated timely.

(Continued)

State Agency: Illinois Department of Public Health (IDPH)

Federal Agency: U.S. Department of Health and Human Services (USDHHS)

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778 ($6,726,527,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-48 *Inadequate Procedures to Verify Provider Licenses*

IDPH does not have adequate procedures to verify medical providers are properly licensed in accordance with applicable State laws.

During our testwork over the licensing of 44 providers of the Medicaid Cluster program for the year ended June 30, 2012, we noted a license was not on file for seven providers sampled. Upon further review with IDPH personnel, we noted these providers were end stage renal disease facilities and IDPH stated this provider type was not required to be licensed. The CMS State Operations Manual for End Stage Renal Disease Facilities section 405.2135 requires these facilities to be licensed if State law provides for the licensure of such facilities. The Illinois End Stage Renal Disease Facility Act (210 ILCS 62/10) states that no person shall open, manage, conduct, offer, maintain, or advertise an end stage renal disease facility without a valid license issued by the State.

Payments to these providers under the Medicaid Cluster totaled $42,645,250, during the year ended June 30, 2012. Payments to end stage renal disease facilities under the Medicaid Cluster totaled $2,138,402, during the year ended June 30, 2012.

According to 42 CFR 455.412, IDPH is required to have a method for verifying that any provider purporting to be licensed in accordance with the laws of any State is licensed by such State and to confirm that the provider's license has not expired and that there are no current limitations on the provider's license. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to verify provider licenses directly with licensing agencies upon enrollment of a provider and on a periodic basis.

In discussing these conditions with IDPH officials, they stated that IDPH does not have adequate procedures to verify medical providers are properly licensed in accordance with applicable State laws.

Failure to verify providers have met the State licensing requirements directly with licensing agencies inhibits the State’s ability to determine provider eligibility and could result in payments being made to ineligible providers, which are unallowable. (Finding Code 12-48, 11-55)

Recommendation:

We recommend IDPH implement policies and procedures to verify providers have met the State licensing requirements directly with licensing agencies upon enrollment and on a periodic basis.

IDPH Response:

The Department concurs with the finding and recommendation.

The Office of Health Care Regulation has been working with the End Stage Renal Disease (ESRD) Advisory Board Work Group to develop a draft set of regulations to implement the ESRD Licensing Act. The ESRD Advisory Board was to vote on the draft in December 2012, but a recent change by federal CMS regarding off-site dialysis required the Work Group to review further and make several changes. It is anticipated that the revisions will be completed and approved by the full Board meeting in May or early June 2013. After the Board reviews and approves, the department will propose the rules in the Illinois Register for public comment.

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Title I, Part A Cluster
Special Education Cluster
Careers and Technical Education – Basic Grants to States
Twenty-First Century Community Learning Centers
Improving Teacher Quality State Grants
School Improvement Grants Cluster
Education Job Funds

CFDA # and Program Expenditures: 84.010/84.389ARRA ($604,726,000)
84.027/84.173/84.391ARRA/84.392ARRA($641,811,000)
84.048 ($35,885,000)
84.287 ($31,581,000)
84.367 ($79,586,000)
84.377/84.388ARRA ($25,196,000)
84.410 ($114,857,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-49 *Inadequate Procedures for Monitoring of Subrecipients*

ISBE is not adequately performing on-site monitoring reviews of subrecipients of the Title I, Part A Cluster (Title I), Special Education Cluster, Careers and Technical Education – Basic Grants to States, Twenty-First Century Community Learning Centers, Improving Teacher Quality State Grants (Title II), Education Job Funds (Ed Jobs), and School Improvement Grants Cluster (SIG) programs (collectively referred to as the Education programs).

ISBE uses a risk based approach to select the Local Education Agencies (subrecipients) for which on-site reviews will be performed. Under this approach, ISBE has identified the following criteria as presenting a higher risk:

- Aggregate amount of program funds expended by the subrecipient;
- Time elapsed since the last on-site review;
- Financial status of subrecipient;
- Past audit findings; and
- Type of entity

During our review of the subrecipients selected for on-site reviews during fiscal year 2012, we noted the criteria used by ISBE is limited and is heavily weighted on the aggregate amount of funding received by the subrecipient. As a result, there will be a small number of subrecipients designated as high risk and they will primarily consist of those subrecipients who receive the most funding from ISBE. While the level of funding is an important criterion, we believe there are other criteria that should be considered.

In addition to selecting those subrecipients with the highest risk scores , we noted ISBE also selected a sample of subrecipients primarily based on their proximity to available ISBE monitoring resources.

We noted the approach described above resulted in the following distribution of reviews relative to the population of subrecipients of ISBE's Education programs:

Category	Number of subrecipients	Percentage of total subrecipients
High-risk subrecipients based upon risk score	62	6%
Subrecipients selected for on-site reviews based upon their proximity to monitoring resources	172	16%
Subrecipients not subject to on-site reviews	829	78%
Total subrecipients	1,063	100%

ISBE has not demonstrated that the number of subrecipients and related amount of subrecipient expenditures reviewed for each individual Education program provides adequate coverage for each program under this approach.

We further noted that the risk criteria were evaluated on an entity-wide basis for each subrecipient; however, several subrecipients selected for on-site reviews were comprised of numerous individual school sites of which only a portion were subject to on-site review procedures. There are no measurable selection criteria for determining which individual school sites will be subject to on-site monitoring procedures for each subrecipient selected for review.

Finally, we noted the monitoring tools used by ISBE for on-site reviews did not include procedures designed to ensure compliance with providing access to federal funding for new or significantly expanded charter schools.

According to OMB Circular A-133_____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with ISBE officials, they stated that this was an oversight during the development of new monitoring procedures in fiscal year 2012.

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. (Finding Code 12-49)

Recommendation:

We recommend ISBE revise its risk assessment criteria to incorporate other risk factors and reconsider the weighting assigned to each criterion to ensure the aggregate amount of funding is not the sole criteria driving the selection. We also recommend ISBE establish measurable selection criteria for selecting individual school sites for on-site reviews, and update its monitoring instruments to ensure they include procedures for all direct and material compliance requirements.

ISBE Response:

The Agency agrees with the finding.

ISBE will evaluate the risk assessment process related to risk factors used and the weighting assigned to each criterion and revise as necessary. ISBE has implemented measurable selection criterion for selecting specific school sites and will update its monitoring instrument to include procedures designed to ensure compliance related to new or significantly expanded charter schools.

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Improving Teacher Quality State Grants

CFDA # and Program Expenditures: 84.367 ($79,586,000)

Award Numbers: See schedule of award numbers

Questioned Costs: $36,716

Finding 12-50 *Inaccurate Calculation of Title II Program Awards*

ISBE did not properly allocate and award federal funds under the Improving Teacher Quality State Grants (Title II) program to Local Education Agencies (LEAs or subrecipients).

Under the Title II program, subrecipients are eligible to receive federal funds for the amount they received under the program (or would have received if the subrecipient did not participate in the program) in fiscal year 2002. If there are additional federal funds available after the minimum award amounts for each subrecipient are determined, the State is required to allocate the remaining federal funds to subrecipients based on the number of low-income individuals served by each LEA (80% of remaining funds) and the number of students enrolled by the LEA (20% of remaining funds).

During our testwork over the allocation of Title II funds, we noted the allocation calculation prepared by ISBE for the low income allocation included erroneous data for foster care children served by the LEAs. As a result, 136 LEAs received Title II awards in excess of the amount for which they were eligible which totaled $36,716. Additionally, 732 LEAs received awards in amounts less than the amount for which they were eligible with 725 being affected by less than $250.

Subawards made under this program were $93,784,370 for the year ended June 30, 2012, of which $12,502,782 related to awards that were subject to allocation based on low income and enrollment data.

In accordance with 20 USC 6621(a)), the State educational agency shall allocate to each local educational agency in the State an amount equal to the total amount that such agency received for fiscal year 2002 or the total amount that the agency would have received for fiscal year 2001 if the agency had elected to participate. For any fiscal year for which the funds reserved by a State under program exceed the total amount required to make allocations, the State educational agency shall allocate to each of the eligible local educational agencies in the State the sum of (a) an amount equal to 20 percent of the excess amount as the number of individuals age 5 through 17 in the geographic area served by the agency divided by the number of those individuals in the geographic areas served by all the local educational agencies in the State and (b) an amount equal to 80 percent of the excess amount as the number of individuals age 5 through 17 from families with incomes below the poverty line in the geographic area served by the agency divided by the number of those individuals in the geographic areas served by all the local educational agencies in the State.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and

program compliance requirements. Effective internal controls should include procedures to ensure calculations used in the program subaward allocations are accurately prepared.

In discussing these conditions with ISBE officials, they stated that the error was due to oversight in using an incorrect poverty value provided by the U.S. Department of Education's Small Area Income and Poverty Estimates (SAIPE) count for income year 2009.

Failure to properly calculate subrecipient awards under the Title II program may result in LEAs receiving an overaward of federal funds and unallowable costs. (Finding Code 12-50)

Recommendation:

We recommend ISBE review its current process for calculating subawards under the Title II program and consider changes necessary to ensure all subawards are properly calculated based on correct low income and enrollment data.

ISBE Response:

The Agency agrees with the finding and has implemented a new process to ensure the accuracy of the calculation in future years. The Agency is working with the U.S. Department of Education to resolve the questioned cost.

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: U.S. Department of Education (USDE)

Program Name: School Improvement Grants Cluster

CFDA # and Program Expenditures: 84.377/84.388ARRA ($25,196,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-51 *Inadequate Cash Management Procedures for Subrecipients*

ISBE did not monitor the cash needs of subrecipients of the School Improvement Grants Cluster to determine whether the time elapsing between the receipt and disbursement of funding was minimized.

ISBE passes through federal funding to Local Education Agencies (subrecipients) throughout the State to support education programs. During our testwork, we noted ISBE provided advance funding (totaling $2,918,747) to two subrecipients of the School Improvement Grants Cluster. We noted the advances (provided in August 2011 and September 2011) were not full expended by the subrecipients within 30 days of receipt. Advanced funds were not fully expended by these subrecipients until December 2011 and April 2012. Amounts passed through to subrecipients during the year ended June 30, 2012 approximated $24,367,000.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Specifically, 34 CFR 80.37 requires the pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient's cash position prior to advancing program funds.

In discussing these conditions with ISBE officials, they stated that the error identified in the testwork was a program year 2011 grant for the City of Chicago District 299 and Peoria District 150. These grants were issued in May 2011, prior to implementing the new cash management procedures on July 1, 2011.

Failure to monitor the cash position of subrecipients could result in advances in excess of 30 days cash needs and in additional costs of financing for the U.S. Treasury. (Finding Code 12-51)

Recommendation:

We recommend ISBE 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.

ISBE Response:

The Agency acknowledges the finding and implemented a new cash management system on July 1, 2011 for all grants issued on or after this date. The new system resulted from a major policy decision that comprehensively changed the methodology for distributing Federal grant funds to local education agencies (LEAs) beginning in fiscal year 2012. LEAs no longer receive advance payments based on a pre-approved payment schedule but rather receive payments through a modified reimbursement method. LEAs are reimbursed as cumulative cash basis expenditures are reported. The "modified" option allows LEAs the ability to request a one month advance along with their cumulative cash basis expenditures. However, LEAs that exercise the one month advance are required to submit a cumulative monthly expenditure report that demonstrates the advance was expended before any further funds are requested.

(Continued)

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Special Education Cluster

CFDA # and Program Expenditures: 84.027/84.173/84.391ARRA/84.392ARRA($641,811,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-52 *Inadequate Process to Report Subaward Information Required by FFATA*

ISBE does not have an adequate process to ensure all subaward information is properly reported as required the Federal Funding Accountability and Transparency Act (FFATA).

During our review of ISBE's procedures to report subaward information required by FFATA, we noted ISBE did not report all required information for subawards under the Special Education Cluster program. Specifically, we noted ISBE did not report 14 subawards made to subrecipients for Special Education Room and Board awards selected in our testwork. Upon further review, we noted ISBE did not report any of the Special Education Room and Board subawards made during State fiscal year 2012.

According to 2 CFR 170, a pass through entity is required report certain identifying information for each subaward of federal funds greater than or equal to $25,000. In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures (1) to identify awards subject to FFATA and (2) to ensure subawards are properly reported in accordance with FFATA.

In discussing these conditions with ISBE officials, they stated that ISBE has met the reporting requirements for formula / entitlement programs; however, the Agency was unaware these requirements applied to Special Education Room and Board because it is a claim-based program.

Failure to identify awards subject to FFATA submissions of subaward information inhibits the State's ability to meet its FFATA reporting requirements. (Finding Code 12-52)

Recommendation:

We recommend ISBE review its current process for reporting subaward information required by FFATA and consider any changes necessary to ensure all required subawards are properly submitted.

ISBE Response:

The Agency agrees with the finding and is now reporting Special Education Room and Board as required.

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032G ($217,331,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 12-53 *Inadequate Process to Verify Unreported Loans*

ISAC does not have an adequate process to verify unreported loans.

ISAC maintains loan level information in its guaranty loan subsidiary ledger (guaranty system) for all loans guaranteed by ISAC through the Federal Family Education Loans program. This information is reported to the National Student Loan Data System (NSLDS). The information in the guaranty system is updated by lenders primarily through an electronic lender manifest (update file) submitted to ISAC on a quarterly basis.

In addition to lender manifests, ISAC has additional processes in place to identify and adjust the guaranty system records for loans with no activity reported from lenders. The first process is the "presumed paid" process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have been in repayment status for twelve years, and that have not been updated through any lender reporting in the past four years. These criteria are consistent with criteria established by the USDE for identifying loans that have been presumed paid. The status of these loans is then changed from repayment to paid in full, and reported as such to the NSLDS.

The second process is called the "unreported loans" process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have not been updated through the lender manifest reporting process during the previous 180 days. Any loans included on this listing are sent to the lenders with instructions to review the loan information and update as appropriate in the next lender manifest. However, ISAC has limited means to follow-up with the lenders to verify that the lenders have made the appropriate changes. The primary mechanism available to ISAC is the bi-annual compliance reviews of the lenders performed by ISAC personnel, in which the status of the unreported loans list is noted.

During our testwork over the accuracy of the loan information included in the guaranty system, we selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender, noting four confirmations were returned "incorrect", three were returned to sender and one was not completed. For three loans of the four "incorrect" confirmations, the loans had been paid in full / consolidated, however, they were not updated within the guaranty system. For one of the loans of the four "incorrect" confirmations, the loan was canceled subsequent to fiscal year end, but before the confirmation request was sent, and the lender was unable to access the loan information.

In accordance with 34 CFR Section 682.404(a)(4) and (b)(4)((ii)(G)(3) and (c), a guaranty agency shall accurately complete and submit to the Secretary a Form 2000 report as the Secretary uses the ED Form 2000 report for the previous September 30 to calculate the amount of loans in repayment at the end of the preceding fiscal year.

In discussing these conditions with ISAC officials, they stated that ISAC recognizes the importance of obtaining accurate and timely data from its lenders. As there is not a federal requirement for lenders to respond to the unreported loans report, ISAC relies on standard business processes with the approval of the U.S. Department of Education to verify unreported loans.

An inadequate process to verify loan information in the guaranty system could result in inaccurate reporting to the NSLDS. (Finding Code 12-53, 11-60, 10-62, 09-58, 08-64)

Recommendation:

We recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS.

ISAC Response:

The following business processes will remain in place to accept changes and updates to loan records:

- ISAC will continue to process monthly lender manifest submissions.
- ISAC will continue its "presumed paid" process which is a method to change the loan status to presumed paid for loans that have been in repayment status for twelve years and that have not been updated through any lender reporting in the past four years.
- ISAC will continue to create the semi-annual unreported loans report as the means for lenders to report changes and updates to loan records.
- ISAC will continue to initiate an unreported loans follow up process with e-message reminders to lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission. The reminders will be sent at regular intervals to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.
- ISAC will continue to participate in the Common Review Initiative (CRI) to conduct the compliance audits of participating lenders. The CRI review process includes verification and determination that the lender/servicer is diligently working unreported loan reports to reduce overall unreported loan rates.

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032G ($217,331,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 12-54 *Inadequate Process for Assignment of Defaulted Loans*

ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in 34 CFR 682.409 are assigned to the USDE.

ISAC is required to assign all defaulted loans that meet certain criteria as described below as of April 15th of each year to the USDE. During our audit of the Federal Family Education Loan Program, we noted there were approximately 5,820 defaulted loans that meet these criteria as of July 17, 2012 that should have been assigned to the USDE but were not. Management indicated the Department of Education has put a moratorium on the subrogation of loans starting in December 2011. As such, ISAC has not subrogated any loans since December.

According to 34 CFR 682.409(a)(1), unless the Secretary notifies an agency, in writing, that other loans must be assigned to the Secretary, an agency must assign any loan that meets all of the following criteria as of April 15 of each year:

i. The unpaid principal balance is at least $100.
ii. For each of the two fiscal years following the fiscal year in which these regulations are effective, the loan, and any other loans held by the agency for that borrower, have been held by the agency for at least four years; for any subsequent fiscal year such loan must have been held by the agency for at least five years.
iii. A payment has not been received on the loan in the last year.
iv. A judgment has not been entered on the loan against the borrower.

In discussing these conditions with ISAC officials, they stated that due to the U.S. Department of Education's moratorium on assignment of defaulted loans the requirement was not able to be met. In effect, the U.S. Department of Education's moratorium precluded ISAC's compliance with this requirement.

Failure to assign loans to the USDE results in ISAC's noncompliance with federal regulations. (Finding Code 12-54, 11-62, 10-64)

Recommendation:

We recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in 34 CFR 682.409 or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE.

ISAC Response:

ISAC believes that if the moratorium on assignment of loans to the U.S. Department of Education had not been in place, all eligible loans could have been assigned. During the period of the moratorium, ISAC revised its procedures to help ensure that more loans would pass USDE's assignment edits. Therefore, ISAC should be able to fulfill the number of loans due to be assigned to USDE for the coming fiscal year, assuming the U.S. Department of Education does not put a new moratorium in place.

It should be noted that the number of loans that are eligible to be assigned to USDE changes daily as loans reach the criteria for assignment eligibility. Therefore, there will always be loans that are waiting to be assigned.

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032G ($217,331,000)

Award Numbers: None

Questioned Costs: None

Finding 12-55 *Unapproved Investments in the Federal Fund*

ISAC invests funds held in the Federal Fund in an investment pool which contains securities that do not comply with regulations for the Federal Family Education Loans program.

A guaranty agency must establish and maintain a Federal Student Loan Reserve Fund (the Federal Fund) to pay reimbursable claims and process refund payments made by or on behalf of borrowers. The assets of the Federal Fund and the earnings on those assets are the property of the United States federal government. ISAC maintains its cash and investment accounts, including the Federal Fund, with the State Treasurer's Office. Any federal monies received are commingled with the State general funds, deposited into the appropriate accounts, and subsequently invested in securities in accordance with the Illinois State Treasurer's Investment Act through an investment pool. The investment pool is managed by the State Treasurer's Office to provide the highest return using authorized securities, meet the daily cash flow demands of the State, and to comply with all State statutes governing the investment of public funds.

The investment pool's investment policy outlines securities the State Treasurer's Office can invest public monies in. However, during our testwork, we noted this policy allows investments in securities that are not guaranteed by the United States, not guaranteed by a State, nor approved by the USDE as required by the federal regulations. Further, ISAC does not monitor the investing activities of the investment pool to ensure funds are invested in approved securities or obtain the appropriate approval for such investments. Specifically, we noted the investment policy allows investments in the following:

- short term obligations of corporations organized in the United States meeting certain requirements,
- obligation securities of a foreign government,
- bonds issued by counties or municipal corporations of the State, and
- savings accounts, certificates of deposits, time deposits, or any other investments constituting direct obligations of certain qualified banks.

For the year ended June 30, 2012, the investment pool's $5,822,884,000 portfolio of investments contained $3,150,026,000 of bank repurchase agreements, and $1,759,786,000 of corporate commercial paper investments that did not comply with program regulations.

In accordance with Section 422A(b) of the Higher Education Act and 20 USC 1072a(b), a guaranty agency shall invest funds transferred to the Federal Fund in obligations issued or guaranteed by the

United States or a State, or in other similarly low-risk securities selected by the guaranty agency, with the approval of the Secretary.

In discussing these conditions with ISAC officials, they stated that as a state agency, ISAC is required to invest its funds with the State Treasurer's Office and therefore, does not have an ability to select or monitor the investments in the pool.

Failure to invest funds transferred in the Federal Fund in approved securities or failure to obtain the appropriate approval for such investments results in noncompliance with program regulations. (Finding Code 12-55, 11-63)

Recommendation:

We recommend ISAC review its process of monitoring the investing activities of funds transferred in the Federal Fund to ensure such funds are invested in approved securities or securities that comply with program regulations.

ISAC Response:

ISAC requested a waiver from the U.S. Department of Education on June 28, 2012, to allow for investment in the State of Illinois pooled investments maintained by the Illinois State Treasurer. We followed up with them on April 23, 2013 and are waiting for their response.

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: U.S. Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032G ($217,331,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 12-56 *Failure to Accurately Update Borrower Records Within Required Timeframes*

ISAC did not accurately update borrower records in accordance with required timeframes.

As the State's guarantor agency for student loans under the Federal Family Education Loan (FFEL) program, ISAC receives payments from borrowers and collection agencies which are manually applied to individual borrower accounts maintained in the loan accounting system. Additionally, ISAC is required to process status and other informational changes it receives relative to borrower loan records within ten business days of receipt.

During our testwork over a sample of 40 payments applied to borrower accounts, we noted one payment sampled was posted to the wrong borrower's account. In addition, during our testwork over 40 borrower repayment status changes, we noted the loan records for one borrower were not updated within 10 days of receipt. Specifically, we noted the borrower's records were updated 28 days after ISAC was notified of the change.

According to 34 CFR 682.414(a), the guaranty agency is required to maintain current, complete records of all loans it holds. The records must be updated at least once every 10 business days. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure borrower records are accurately updated within required timeframes.

In discussing these conditions with ISAC officials, they stated that these issues on these two accounts were due to human error.

Failure to accurately update borrower records in a time manner results in noncompliance with federal program requirements. (Finding Code 12-56)

Recommendation:

We recommend ISAC review its procedures and implement any necessary changes to ensure loan records are accurately updated in accordance with program requirements.

ISAC Response:

ISAC follows regulations to ensure that bankruptcy proof of claim information is entered timely upon receipt of documentation. Staff has been thoroughly trained and the process is closely monitored by management.

Regarding the item manually posted to the wrong account, processes have been put in place to ensure all manual postings are reviewed the day after posting, and if any errors are detected they are corrected immediately. It should be noted that the vast majority (over 96%) of payment postings are automated and are not subject to a manual process.

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: U.S. Department of Labor (USDOL)

Program Name: Employment Service Cluster

CFDA # and Program Expenditures: 17.207/17.801/17.804 ($45,327,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-57 *Inadequate Supporting Documentation for Performance Reports*

Sufficient documentation was not available to support information reported in the ETA 9002D and the VETS 200C performance reports.

The ETA 9002D and the VETS 200C performance reports are used to report services, activities, and outcomes of service for all job seekers and veterans. These reports are required to be submitted quarterly, and are used to assess a State's success in meeting its performance goals. The reports include data from the Illinois Job Link (IJL) system, the Unemployment Services Wage Information System (WIS), and the Wage Record Interchange System (WRIS). IDES uses a report writer, the DART reporting system, to accumulate the data from the IJL, WIS, and WRIS systems into the format required for the reports. This data is then submitted electronically through the USDOL's Employment and Training Administration's web-based reporting system. We are required by the OMB Circular A-133 compliance supplement to test key line items in these reports; however, complete information supporting the accumulation of average earnings data in these key line items (line 13 of the ETA 9002D report and line 26 of the VETS 200C report) by the DART reporting system was not available for testing.

According to the OMB Circular A-133 Compliance Supplement, dated June 2012, IDES is required to prepare and submit to the USDOL the ETA 9002 and the Veterans' Employment and Training Services VETS 200 performance reports on a quarterly basis. The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure detailed information supporting data in performance reports is reviewed and maintained for a period of at least three years.

In discussing this with IDES personnel, they stated the missing data was from the WRIS database which is managed by the federal government and they do not have any control over the availability of the data.

Failure to provide sufficient supporting documentation for the performance reports required for the Employment Service Cluster program inhibits the ability to perform an audit of the program in accordance with OMB Circular A-133 in that it inhibits the auditors' ability to select a sample of data reported to validate the accuracy. (Finding Code 12-57)

Recommendation:

We recommend IDES implement procedures to ensure documentation to support key line items can be provided from the DART system for the ETA 9002D and the VETS 200C performance reports.

IDES Response:

We accept this finding. As the WRIS database from which these reports are partially compiled is managed by the federal government, IDES has no control over the information retained in this system. The information the auditors requested dated back to the 3rd quarter of 2010. This data had already been purged from the WRIS database. However, in the future, IDES will save our data request file to keep a snapshot of the WRIS data at the time it is requested so it will be available for the auditors if the actual source data from the WRIS database is no longer available. It is also worth noting that 100% of the WIS wage data requested was provided as this is a database that is maintained by IDES.

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: U.S. Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA ($5,074,288,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-58 *Inadequate Procedures for Follow-up of Invalid Social Security Numbers*

IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) program.

To be eligible to receive UI benefits, claimants must be in the labor force, unemployment must be caused by lack of suitable work, and the claimant must be legally authorized to work. As part of determining whether claimants are legally authorized to work, IDES is required to verify the claimant has a valid social security number. With the implementation of the Illinois Benefits Information System (IBIS), IDES planned to automate its process for verifying social security numbers by performing a system cross-match between IBIS and the U.S. Social Security Administration (SSA) to enable social security verification in real-time; however, the interface between IBIS and SSA was not fully implemented during fiscal year 2012. As a result, IDES has implemented a manual process to verify social security numbers with the SSA on a daily basis. Upon receipt of the SSA verification file, case workers in local offices manually place a hold flag on claimant records with invalid social security numbers and benefit payments cease. Benefits will not be reinstated until after the claimant presents evidence of a valid social security number and the hold flag is removed.

During our testwork over the eligibility of UI benefit payments, we selected a sample of 50 claimants from a listing of invalid social security numbers and noted six did not have a hold flag placed on the account and do not appear to have been investigated by IDES. Total benefits paid to these six claimants were $22,192 during the year ended June 30, 2012.

In accordance with 42 U.S.C. Section 1320b-7(a)(1), IDES shall require, as a condition of eligibility for unemployment benefits, that each claimant for benefits furnish to the agency his/her social security number (or numbers if he/she has more than one such number), and IDES shall utilize such numbers in the administration of the unemployment compensation program so as to associate the agency's records pertaining to each claimant with the claimant's social security number(s). If IDES determines that a claimant has refused or failed to provide a Social Security Number, then that individual shall be ineligible to participate in the unemployment compensation program. Any claimant held ineligible for not supplying a social security number may become eligible upon providing IDES with such number retroactive to the extent permitted under State law.

In accordance with 820 ILCS 405/614, an alien shall be ineligible for UI benefits unless the alien was an individual who was lawfully admitted for permanent residence at the time such services were performed or otherwise was permanently residing in the United States under color of law at the time such services were performed (including an alien who was lawfully present in the United States as a result of the application of the provisions of Section 212(d) (5) of the Immigration and Nationality Act).

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate follow up of invalid social security numbers.

In discussing these conditions with IDES officials, they stated that on one or more occasions, the invalid social security number report may not have been properly generated, picked up from our print room, disseminated to the Service Delivery staff, and/or these issues may not have been entered into the IBIS system.

Failure to verify claimant social security numbers could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 12-58, 11-64, 10-70, 09-62)

Recommendation:

We recommend IDES follow established procedures to ensure the automated stop is generated for all invalid social security numbers to prevent payment of benefits to ineligible claimants.

IDES Response:

We agree. IDES went live with real-time social security number validation via the Social Security Administration in December 2012. As part of this process, when a claimant's social security number does not match their name, an issue is posted in IBIS, which stops any payments from being established for a new UI claimant.

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: U.S. Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA ($5,074,288,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-59 *Inadequate Documentation of Controls over Information Systems*

IDES does not have adequate documentation of the performance of access, program change, and computer operation controls over the information systems that support the Unemployment Insurance (UI) Program.

The information technology systems that support the UI Program include the following:

- The Illinois Benefits Information System (IBIS)
- The Wage Information System (WIS)
- The Benefit Funding System (BFS)
- The Benefit Charging System (BCS)
- The Overpayment Recovery System (ORS)
- The Telephone Certification System (TCS)

The IBIS is the centrally maintained information system designed to perform and document claimant eligibility determinations, to process claims for unemployment insurance benefits, and to assist IDES in complying with the requirements of the UI Act rules, policies, and procedures applicable to the UI benefits. It interfaces with the WIS, which is the system that includes all of the employer wage data and remittance information for the payroll taxes. The BFS includes the employer setup information and the rate calculation process and the BCS is the system that charges the employment tax rates to the employer accounts. The ORS is designed to detect and report overpayments. The TCS is used by claimants to certify their continuing eligibility for benefits.

Access to the information systems that support the UI Program is done through the mainframe system utilizing a security software system. The security software utilizes specific, individually-assigned identifiers which control/limit access to the systems that support the UI Program.

Requests for new system access or termination of access must be approved by the cost center manager through the use of the TSS-001 Form. The user IDs are automatically deleted once employment has terminated as each pay period a job is run which checks employee status against the personnel data base. When this job identifies employees who have terminated, the user ID for the individual is removed. Any modification of access must also be approved by the cost center manager through the use of the TSS-006 Form. It is the cost center manager's responsibility to determine the proper on-line access for each employee.

During our testwork over the access, program change and development, and computer operations controls of the mainframe system, we noted the following:

- Certain individuals have the ability to modify production code and data, as well as, the ability to migrate changes into production. As a result, these individuals may introduce unintentional changes into production that may not be detected.
- Of 25 new users selected for testwork, the UserID request form for one user was not signed by the employee. This user's signature evidences the user's understanding of and agreement to follow IDES' policies relative to computer data, resource usage, passwords, and confidentiality.
- Of 9 employees granted physical access to information system equipment (total population), IDES could not locate the request form for one user. Further, the request forms were not properly completed for two employees.
- Of 107 sampled users with access to the mainframe system, one user had inappropriate access rights based on his job description and two terminated employees still had active accounts. Additionally, there were eight generic user accounts not specifically assigned to an employee.
- Of the 30 system backup files created by IDES during the year and selected for testwork, one backup file could not be located.
- Formal policies and procedures related to identifying, reporting, and resolving system security breaches and related incidences have not been developed.
- Formal policies and procedures related to change management have not been developed for IBIS.
- Data recovery testing was not performed during the year ended June 30, 2012.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with IDES officials, they stated that the unsigned form was an oversight. IDES does not have control over the CCF facility, change management procedures have been developed, but have not been formalized, and the CMS alternate data center was not equipped to conduct a full disaster recovery test.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 12-59, 11-66)

Recommendation:

We recommend IDES implement procedures to ensure policies and procedures are adequately documented and followed. In addition, we recommend IDES segregate the duties for developing and migrating program changes and perform user access reviews for IBIS and the data center.

IDES Response:

Bullet 1: We disagree with this finding. IDES developers currently do not have access to modify production code and data, nor the ability to migrate these changes into production. IDES policy dictates that forms must be completed by IDES developers and signed off on by senior management for any

modifications to be made to the production code. These forms are then submitted to IDES staff who specifically oversees our Library Version Control (LVC) unit. This documentation is filed in our document library for tracking and auditing purposes. Once LVC staff members receive the appropriate paperwork and sign-offs, they migrate changes to our production environment. Based on the documentation provided by these auditors, they identified our two Library Version Control unit staff as the individuals who have the ability to modify production code and data and migrate these changes into production. These individuals are not developers and without access to the group datasets, they would not be able to promote various components to production, nor would they be able to create new development environments which the developers use to segregate their concurrent changes.

Bullet 2: We accept this finding. IDES policy dictates that in order to receive RACF access needed for testwork, a RACF UserID request form (TSS-100) must be completed, signed by the user, and reviewed by their cost center manager before our Technical Support and Security staff will grant the user access. These forms are filed in our document library. For RACF UserID requests, files are organized in alphabetical order by the user's last name. In this instance, however, it does appear RACF access was granted despite the fact that the user's signature was missing from the RACF UserID request. IDES will update our policy to clarify that unsigned RACF UserID requests will not be processed but instead returned to the cost center manager.

Bullet 3: Based on the data provided by the auditors, this finding relates to access to the CCF facility in Springfield, IL that is managed by the Department of Central Management Services. IDES has no control or management oversight over this facility or physical access to this facility. IDES will, however, work with CMS to try and address this issue.

Bullet 4: Based on the data provided by the auditors, this finding relates to RACF access for Department of Central Management Services BCCS staff located in Springfield, IL. IDES has no control or management oversight over the BCCS staff or their RACF access rights. IDES will, however, work with CMS to try and address this issue.

Bullet 5: Based on the data provided by the auditors, this finding relates to backups conducted at the CCF facility in Springfield, IL that is managed by the Department of Central Management Services. IDES has no control or management oversight over this facility or the system backup files managed by the CMS BCCS staff. IDES will, however, work with CMS to try and address this issue.

Bullet 6: Based on the data provided by the auditors, this finding relates to security breach procedures for the Department of Central Management Services BCCS staff. IDES has no control or management oversight over the BCCS staff or their policy and procedures for identifying, reporting and resolving system security breaches. IDES will, however, work with CMS to try and address this issue.

Bullet 7: We accept this finding. Over the past year IDES' new Quality Assurance (QA) unit in ISD hired a Quality Assurance Supervisor and additional Benefits Business Analyst. Additionally, this team hired four Subject Matter Experts who are specifically tasked with meeting with the business end users to create Scope of Work documentation, assist with Business Analysts with the creation of Functional Business Requirements and participate with the Quality Assurance unit in User Acceptance Testing. The Quality Assurance Unit is responsible for overseeing the change management process to current system and system implementations. This includes documentation of the change (Scope of Work), approval of requirements (Functional Business Requirements), approval of design (Design Documents), testing approval (User Acceptance Testing) and sign-off to implement. Now that we have been using this change

management process for several months and several projects across business areas, IDES will officially formalize our IT change management procedures and properly update the IDES Policy and Procedures to reflect these new requirements.

Bullet 8: IDES is currently working with the Department of Central Management Services to build out a warm alternate disaster recovery site at the State's alternate data center. In the fall of 2012, IDES conducted a successful data recovery test in the new alternate disaster recovery site. CMS is working to procure the mid-range servers necessary to conduct a full disaster recovery test of the IBIS application. As soon as the entire IBIS environment is available at CMS' alternate data center, IDES will request to resume our annual Disaster Recovery testing.

Auditors' Comment:

The results of our testing identified the exceptions noted above existed during the period from July 1, 2011 through June 30, 2012. We are not required to and have not performed procedures to determine if conditions identified in this finding have been corrected subsequent to June 30, 2012.

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: U.S. Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA ($5,074,288,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-60 *Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports*

The IDES 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 which are distributed to and monitored by personnel at local IDES offices. 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:

- *Certification Batch Reconciliation Report* – This report identifies the batches of paper eligibility certifications entered each day as completed or pending. Batches identified as pending are reviewed and processed by the local office.
- *Appeals Requiring Local Action Report* – This report identifies all appealed claims with a central office action that is in conflict with the initial local office action. These claims are reviewed by the local office to ensure the resulting payment actions are appropriate.
- *TRA modified WBA/DC Report* – This report identifies any changes to a TRA claimant's information and provides the local office with a detailed listing of all manual changes made to the weekly benefit amount (WBA) or dependent information. The case records are reviewed for claimants identified on this report to ensure appropriate documentation exists to support the changes.
- *Determination End Date Report* – This report identifies all new claims that were stopped because of an issue that should have been resolved at the time the claim was filed. These claims are reviewed by the local office prior to the first certification to prevent late payments.
- *Post Office Box Comments Report* – This report identifies claimants whose benefits are sent to a post office box and whose address was modified in the prior week. The case records for these claimants are verified to ensure the reason why a post office box is being used is appropriately documented.

During our test work we noted policies and procedures had not been established relative to the review process and retention time period for the six reports identified above.

We conducted unannounced site visits to five 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. We reviewed a total of 30 reports and noted that resolution of exceptions and supervisory review was not consistently documented. Specifically, we noted the following:

- Eight claim exception and monitoring reports did not contain evidence of being worked by the local office staff within three days.
- Nine claim and exception monitoring reports (including the eight identified in the previous bullet) did not contain evidence of supervisory review.

Additionally, during our on-site reviews, we noted IDES only retains claim exception and monitoring reports for a period of three months after the end of a quarter. As such, we were unable to determine whether claim exception and monitoring reports had been worked within three business days or subject to supervisory review prior to April 1, 2012.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate timely follow up and documentation of review of claim exception reports.

In discussing these conditions with IDES officials, they stated that the procedures require the reports be reviewed and in some cases were not being properly documented due to lack of understanding of the procedure.

Failure to adequately document resolution of claim and monitoring reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 12-60, 11-68, 10-73, 09-65, 08-70, 07-63, 06-62, 05-88)

Recommendation:

We recommend IDES 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 facilitate completion of the audit.

IDES Response:

Some reports no longer require manual review with the enhancements made with the launch of the IBIS system and those procedures will be revised or automated.

IDES has amended the procedures for the *Certification Batch Reconciliation Report* to append the report to each day's paper certifications and file them. The TRA *modified WBA/DC Report* has been centralized to ensure compliance and ease of tracing. The *Post Office Box Comments Report* procedure has been deleted as the utility for verifying the Post Office Box has diminished since all payments are made electronically.

The *Appeals Requiring Local Action Report* and the *Determination End Date Report* have been determined to become automated IBIS tasks that can be tracked systematically and the procedure will then be eliminated to require review of the paper report. In the interim, IDES will reinforce the current procedures for these reports and ensure that they are reviewed, signed, and kept in the local office.

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: U.S. Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA ($5,074,288,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-61 *Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries*

IDES did not perform all required out-of-state wages verification procedures for Emergency Unemployment Compensation (EUC08) beneficiaries.

The EUC08 program was established by the American Recovery and Reinvestment Act and is administered as a part of the Unemployment Insurance (UI) program. The EUC08 program is a federally funded benefit extension program which provides up to 33 weeks of benefits to claimants who have exhausted their benefit rights to regular unemployment compensation under the applicable state law with respect to the applicable benefit year. The benefit year is the one year period beginning with the Sunday of the week in which the worker first files a valid claim for benefits.

A claimant eligible for regular UI benefits in another state is considered to have established a new benefit year and has not exhausted all rights to regular benefits and, therefore, is not eligible for EUC08 benefits. Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted IDES does not examine out-of-state wages at the beginning of the initial EUC08 and initial extended benefit claim or at the end of each quarter to determine if UI eligibility could be established in another state. Prior to April 23, 2012, IDES procedures for verifying whether a claimant has exhausted all rights to regular benefits only include examining out-of-state wages each time a claimant establishes new benefit year. Effective April 23, 2012, IDES implemented procedures to access the State Identification Subsystem (SID) to verify out-of-state wages beginning with the quarter ended June 30, 2012.

According to Unemployment Insurance Program Letter (UIPL) No. 23-08, Attachment A, page A-3, #1(b)(2), at each quarter change, a state must check to see if an individual meets the state's requirements to establish a new benefit year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to perform verification procedures related to claimant eligibility in accordance with Federal regulations.

In discussing these conditions with IDES officials, they stated that they were exploring a viable option but it continued to remain elusive.

Failure to perform required out-of-state wage verifications could result in the payment of EUC08 benefits to ineligible recipients. (Finding Code 12-61, 11-69, 10-75, 09-69)

Recommendation:

We recommend IDES continue working with USDOL to perform out-of-state wage verifications at the beginning of the initial EUC08 and extended benefit periods, and at the end of each quarter to determine if UI eligibility could be established in another state.

IDES Response:

We agree. IDES began conducting manual out-of-state wage check for all new EUC claimants in December of 2012. The current process is to conduct a nightly cross-match through SID and produce a daily report that is dispersed to local office staff for follow-up with claimants showing out-of-state wages. IDES is working with USDOL to automate this process so when out-of-state wages are found through SID for new EUC claimants, or during a quarterly EUC claimant check, an issue will be automatically established in IBIS and correspondence mailed to the claimants who shows as having out-of-states wages, requiring the claimant to visit their local office to prove they do not have wages available in another state.

(Continued)

State Agency: Illinois Department of Commerce and Economic Opportunity (DCEO)

Federal Agency: U.S. Department of Labor (USDOL)
U.S. Department of Energy (USDOE)
U.S. Department of Health and Human Services (USDHHS)

Program Name: Workforce Investment Act Cluster
Weatherization Assistance for Low Income Persons
Low-Income Home Energy Assistance Program

CFDA # and Program Expenditures: 17.258/17.259/17.278/17.260 ($156,049,000)
81.042/81.042ARRA ($59,509,000)
93.568 ($197,698,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-62 *Inadequate Process for Following Up on Monitoring Findings*

DCEO did not have an adequate process in place for communicating and following up on monitoring findings for subrecipients of the Workforce Investment Act Cluster (WIA Cluster), Weatherization Assistance for Low Income Persons (Weatherization), and Low-Income Home Energy Assistance Program (LIHEAP) programs.

DCEO's subrecipient monitoring process for the Weatherization and LIHEAP programs includes performing fiscal and programmatic on-site reviews, A-133 audit report desk reviews, external audit reviews, and expenditures report reviews. DCEO has developed standardized monitoring checklists for each of its federal programs which are used by DCEO personnel in performing and documenting on-site reviews.

During our review of monitoring reports and checklists prepared for on-site reviews conducted for 16 Weatherization subrecipients (with expenditures of $32,962,430), 16 LIHEAP subrecipients (with expenditures of $90,410,763), and 12 WIA Cluster subrecipients (with expenditures of $44,788,749) during the respective grant periods, we noted DCEO identified and reported several instances of non-compliance with program requirements to its subrecipients. Findings identified in monitoring reports included items such as: (1) failing to refund amounts received in excess of program expenditures, (2) failing to ensure contractor costs were reasonable, and (3) failure to provide required analyses. Upon further review of the monitoring files, we noted the following:

- DCEO had not performed procedures to ensure timely corrective action was taken by thirteen subrecipients of the LIHEAP programs prior to reimbursing program expenditures and, as a result, unallowable costs may have been paid to subrecipients during the year ended June 30, 2012. Amounts passed through to these subrecipients under the LIHEAP program was $84,002,563.
- DCEO did not issue a monitoring report on on-site reviews of nine subrecipients of the WIA Cluster program and seven subrecipients of the LIHEAP program in a timely manner. The monitoring reports for these subrecipients were issued between 49 days and 267 days after the

completion of the on-site reviews. Amounts passed through to these subrecipients were $31,613,429 and $18,440,379 under the WIA Cluster and LIHEAP programs, respectively.

- DCEO referenced inaccurate grant numbers in monitoring reports for five subrecipients of the Weatherization program and eight subrecipients of the LIHEAP program. Specifically, we noted that on-site monitoring reports for these subrecipients referenced grant award numbers from which the subrecipients did not receive or expend funding in the period covered by the review. Amounts passed through to these subrecipients were $9,400,771 and $19,741,320 and for the Weatherization and LIHEAP programs, respectively.
- DCEO did not document supervisory reviews performed for any of the twelve fiscal on-site monitoring reviews tested for subrecipients of the WIA Cluster program.

DCEO passed through approximately $140,952,000, $56,432,000, and $195,316,000 of federal funding to subrecipients of the WIA Cluster, Weatherization, and LIHEAP programs, respectively, during the year ended June 30, 2012.

According to OMB Circular A-133 §____.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to follow up on findings identified during subrecipient reviews prior to reimbursing program expenditures. Effective internal controls should also include procedures to ensure monitoring reports are accurately prepared and communicated to subrecipients in a timely manner and supervisory reviews of on-site monitoring are adequately documented.

In discussing these conditions with DCEO personnel, they stated that conditions identified in the finding were the result of limited staffing, human error, and unique situations that required extended time for completion of monitoring procedures.

Failure to adequately monitor subrecipients and to ensure on-site reviews were properly completed could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-62, 11-71)

Recommendation:

We recommend DCEO establish procedures to follow up on on-site monitoring findings to verify corrective actions are being implemented by subrecipients prior to reimbursing program expenditures and monitoring reports are accurately prepared in a timely manner. We also recommend DCEO implement procedures to ensure supervisory reviews of fiscal on-site monitoring reviews are adequately documented.

(Continued)

DCEO Response:

The Department accepts the recommendation. The LIHEAP monitors currently follow-up on subrecipient findings during the next monitoring review for administrative-related findings unless more immediate follow-up is necessary for more serious or financial issues. This follow-up approach has been used to achieve efficiencies as the LIHEAP program has experienced lower staffing levels. The Department will enhance its procedures for the LIHEAP program to formally follow-up on all monitoring findings to verify corrective actions are adequate and are either in-process or have been implemented. The LIHEAP staff will continue to ensure subrecipients are in "good standing" in relation to open monitoring findings prior to approving additional payments.

The timeliness of issuing monitoring reports by both the LIHEAP and WIA programs is due to the fact that the majority of the monitoring procedures are done at the monitor's desk after the site visit is conducted. The additional desk review time, after the on-site visit and prior to the report issuance, extends the actual completion date of the monitoring event and makes the reports appear to be untimely. The final desk review of information is done to minimize travel and associated costs by reducing the length of time of the on-site visit. In addition, it should be noted that the WIA monitoring exception involved unique situations with subrecipients that necessitated the extension of monitoring. The exception also involved several subrecipients with significant findings which required extended dialogue prior to issuing a final monitoring report. Additionally, the WIA monitoring process includes significant technical assistance to address operating issues and promote continuous improvement in the local workforce areas. The Department will review its monitoring procedures for the LIHEAP and WIA programs to document when a monitor has received all necessary information from the subrecipient and has completed the desk work to provide a more accurate gauge for calculating the timeliness of issuing a monitoring report to the subrecipient.

The WIA monitoring supervisor reviewed each fiscal monitoring event validation form for each of the twelve fiscal on-site monitoring reviews; however, the physical signatures were not present on the forms at the time of the audit review. The WIA program has revised validation procedures and updated the monitoring event validation form to include a signature line for the monitoring supervisor.

State Agency: Illinois Department of Commerce and Economic Opportunity (DCEO)

Federal Agency: U.S. Department of Energy (USDOE)

Program Name: State Energy Program

CFDA # and Program Expenditures: 81.041/81.041ARRA ($49,690,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Findings 12-63 *Inadequate Documentation of Monitoring of Subrecipients of the State Energy Program*

DCEO did not adequately document on-site monitoring procedures performed for subrecipients of the State Energy (SEP) program.

DCEO received grant awards of approximately $110,083,000 under the SEP program of which approximately $49,690,000 was expended during the year ended June 30, 2012. Approximately $47,067,000 of the funding was passed through to subrecipients to increase the use of renewable energy and promote energy efficiency across the State. Each subrecipient designs and implements State-wide energy programs to meet the State's energy needs. DCEO monitors subrecipients of the State Energy Program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, and (3) periodic communication of program requirements. However, DCEO does not adequately document its performance of on-site monitoring procedures to review subrecipient compliance with programmatic requirements or the fiscal and administrative capabilities of any of its State Energy Program subrecipients. Specifically, we noted the checklist used for this program is highly summarized and does not adequately document the compliance requirements being reviewed of the procedures being performed. We also noted the results of the review procedures are not formally communicated to subrecipients.

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated June 2012, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include adequately documenting the on-site review procedures performed and implementing formal procedures for communicating the results of on-site reviews to subrecipients.

In discussing these conditions with DCEO personnel, they stated that on-site monitoring procedures for this program require two site visits, an initial visit and a final site visit, as grants are primarily for

purchase and installation of equipment. Monitoring procedures include taking photographs of installed and operational equipment and reviewing records for equipment purchases and inventory as this verified the majority of grant activities. Program staff assumed the monitoring procedures were sufficient as the U.S. Department of Energy did monitor the program and found the program's monitoring procedures to be adequate.

Failure to adequately document subrecipient monitoring reviews and related findings could result in subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement and federal funds being expended for unallowable purposes. (Finding Code 12-63)

Recommendation:

We recommend DCEO review its current procedures for monitoring SEP subrecipients to ensure monitoring tools adequately document the compliance requirements and fiscal/administrative controls being reviewed. Additionally, we recommend DCEO implement procedures to formally communicate the results of monitoring reviews in writing.

DCEO Response:

The Department accepts the recommendation and will review and modify on-site monitoring procedures and instruments for this program to adequately review and document compliance requirements for subrecipients. The Department will also implement procedures for this program to communicate the results of monitoring reviews in writing to subrecipients and implement follow-up procedures to ensure findings are properly tracked and adequately addressed by subrecipients.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Airport Improvement Program

CFDA # and Program Expenditures: 20.106/20.106ARRA ($77,567,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-64 *Inadequate On-Site Monitoring of Airport Improvement Subrecipients*

IDOT is not adequately performing and documenting on-site monitoring procedures for subrecipients receiving federal awards under the Airport Improvement Program.

IDOT passed through approximately $36,808,000 to 36 subrecipients of the Airport Improvement program during the fiscal year ended June 30, 2012 (non-ARRA funding). The majority of the subrecipient grants pertain to construction projects for airport improvement or for noise abatement projects. As a pass though entity, IDOT monitors its subrecipients primarily by reviewing procurement files, receiving periodic expenditure reports, reviewing invoices and cancelled checks prior to reimbursing subrecipients, receiving OMB Circular A-133 Audit Reports, and performing on-site reviews. IDOT has developed standardized checklists for conducting on-site reviews.

During our review of four subrecipients who received approximately $2,359,000 during the year ended June 30, 2012 and received an on-site review, we noted the standardized checklists were not utilized for two of the reviews conducted. Amounts passed through to these two subrecipients during the year ended June 30, 2012 totaled approximately $1,983,000. Additionally, we noted IDOT has not established criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis.

According to the OMB Circular A-133 Compliance Supplement, dated June 2012, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures for identifying which subrecipients will be subject to on-site monitoring review procedures and following established procedures to document such reviews.

In discussing these conditions, IDOT officials stated they monitored subrecipients by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects and reviewing OMB Circular A-133 audit reports.

Failure to adequately perform and document subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-64, 11-75, 10-81, 09-73, 08-78, 07-70, 06-71, 05-76)

Recommendation:

We recommend IDOT develop formal policies and procedures to perform periodic on-site reviews and adequately document such reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

IDOT Response:

The Department agrees with the recommendation. IDOT, Division of Aeronautics (Division) has worked with the Office of Internal Audits to develop an acceptable procedure and checklist.

The Division has revised Design Section PPM 10.1 (4/24/2013) Local-let Construction Monitoring and Documentation to include audit determination provisions for monitoring/audit review of projects less than $500,000 in value. Projects in excess of $500,000 have mandatory requirement.

The Division has revised AER-50 (4/24/2013) Local Let Project Tracking Worksheet and Documentation to include Audit Determination Checklist, to be filed with each project, which assesses risk and explains the rationale for audit determinations.

Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-65 *Failure to Retain Documentation in Accordance with Federal Regulations*

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

Contractors must receive advance approval from IDOT to bid on construction projects. As a condition of obtaining IDOT's advance approval, contractors are required to submit an affidavit of availability, which identifies the total value of work previously awarded but not yet complete by the contractor, the contractor's commitment of equipment and personnel on payroll for the planned project, any proposed work on which the contractor is the low bidder which has not yet been awarded, all subcontractors used by the contractor on its projects, and the value of work sublet by the contractor. This affidavit is used by IDOT to determine whether the contractor has available capacity to complete the project.

Prior to making a payment to a contractor, IDOT personnel prepare a summary of project costs from reports prepared and approved by the assigned resident engineer. The summary of project costs identifies the appropriation code and source of funding for the project. This summary is required to be reviewed and approved by the chief accountant prior to making payment to the contractor. IDOT prepares internal invoices which summarize the costs incurred for the period of payment, which require approval by the construction administration manager. Once approved, vouchers are prepared and sent to the Comptroller's Office, where the warrant is generated for payment to the contractor.

During our testwork of 65 contractor payments (totaling approximately $45,514,000) and the related procurement files and other source documentation, we noted the following exceptions:

- The affidavit of availability could not be located for eight contractors (with sampled payments of $975,008).
- The summary of project costs approved by the chief accountant could not be located for three contractors (with sampled payments of $328,063).
- The approved invoice could not be located for one contractor payment totaling $405,000.
- The warrant and voucher could not be located for three contractors (with sampled payments of $328,063).

IDOT's records retention policy (the policy) requires procurement files, which include the affidavit of availability and summary of project costs, be retained for a five year period. The policy requires invoices, vouchers and warrants to be retained for a ten year period. Upon further review, we noted these projects were originally bid prior to fiscal year 2006 and the affidavits of availability, approved summary of

project costs, invoices, vouchers, and warrants were purged in accordance with IDOT's records retention policy. As federal regulations require records to be retained for a period of three years after final payments and all other pending matters are closed, these documents should have been retained by IDOT.

In each of the procurement and contract files missing the affidavit of availability and summary of project costs, each of the advance approval criteria, cost information and payment information was verified through additional supporting documentation in IDOT's electronic records. Therefore all information necessary to establish and support the advance approval and payment procedures had been performed for the period was available; however, evidence of IDOT personnel's review and approval could not be located.

Payments made to or claimed under advanced construction projects for the contractors identified as exceptions in our testwork for the projects sampled were $262,451 for the year ending June 30, 2012. Payments made to contractors whose projects were bid prior to July 1, 2006 approximated $64,762,383 during the year ended June 30, 2012. Payments made for construction contracts under the Highway Planning program were approximately $1,199,014,000 during the year ended June 30, 2012.

According to 49 CFR Section 18.36(i)(10) and 18.36(i)(11), records must be retained for three years after grantees or subgrantees make final payments and all other pending matters are closed to allow access to the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives for the purpose of making audits or examinations. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effective internal controls should include establishing record retention policies that comply with federal regulations.

In discussing these conditions with IDOT officials, they stated that the Department followed the approved retention requirements for the time period in which these contracts were processed.

Failure to retain documentation in accordance with Federal regulations may result in unallowable costs being charged to the federal program and prevents Federal agencies from properly monitoring the State's compliance with program requirements. (Finding Code 12-65, 11-76, 10-82)

Recommendation:

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

IDOT Response:

The Department agrees with the recommendation. It is IDOT's policy to prepare all construction projects according to federal regulations even if the contract will not be paid with federal funds. Occasionally, IDOT is allowed to convert non-federally funded contracts and reclaim federal funds for a portion of the work. At the time the contract work was performed, these contracts did not have federal funds. Last fiscal year, the Department was able to convert this group of contracts from state funded to federally funded and seek reimbursement from FHWA for the allowable costs. The Department is in the process of reviewing the current procedures to ensure all required documents are being properly retained.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-66 *Failure to Obtain Certified Payrolls Prior to Contractor Payments*

IDOT did not obtain certified payrolls prior to making payments to contractors for the Highway Planning and Construction Cluster (Highway Planning) program.

Non-federal entities are required to comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations applicable to contracts governing federally financed and assisted construction. These regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project. Each subcontractor subject to the Davis-Bacon Act must submit payrolls on a weekly basis and include a signed certification that they have complied with the prevailing wage rates. The resident engineer on the construction site is required to keep a log of contractors and monitor payroll submission. These logs are reviewed by the resident engineer, which indicates the certified payrolls for that period have been received prior to payment.

During our testwork of 56 contractor payments for regular construction projects (totaling approximately $45,514,000) and 9 contractor payments for advanced construction projects (totaling approximately $878,000), we noted the following:

- The certified payrolls for 7 contractor payments on regular construction projects (totaling approximately $7,892,000) were not received prior to payment. The number of days the certified payrolls were received subsequent to the payments made to the contractors ranged from 5 to 19 days.
- The certified payrolls for 30 contractor payments on regular construction projects (totaling approximately $20,439,000) were not date stamped. As a result, we were unable to determine whether they were received prior to making payments to the contractors.
- The certified payrolls and statements of compliance for 5 contractor payments on advanced construction projects (totaling approximately $769,000) could not be located for our testwork. As a result, we were unable to determine whether they were received prior to making payments to the contractors.
- The certified payrolls for 15 contractor payments on regular construction projects (totaling approximately $9,662,000) were not signed by either the Resident Engineer, documentation staff, or EEO personnel. As a result, we were unable to determine whether the certified payroll was approved prior to making payments to the contractor.

Payments made for construction contracts under the Highway Planning program were approximately $1,199,014,000 during the year ended June 30, 2012.

According to 29 CFR Section 5.5(a)(3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Resident Engineer. Each payroll submitted shall be accompanied by a "Statement of Compliance" signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure certified payrolls are received prior to making payments to the contractors.

In discussing these conditions with IDOT personnel, they stated that certified payrolls are required to be submitted each week.

Failure to obtain certified payrolls prior to making payments to the contractors could result in contractors not paying the prevailing wage rate to employees. (Finding Code 12-66, 11-77)

Recommendation:

We recommend IDOT establish procedures to ensure weekly payroll certifications are received prior to making payments to the contractors.

IDOT Response:

The Department agrees with the recommendation. This issue was discussed at the Annual Construction/Materials meeting and at each of the District Spring implementation meetings. In addition, the FHWA will conduct a process review of the Department's certified payroll process to assure compliance with the law, Department policies and specifications and to identify possible improvements. The process review is scheduled to begin this summer.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.106/20.106ARRA ($77,567,000)
20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-67 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports.

IDOT passed through approximately $36,808,000 and $257,861,000 to subrecipients of the Airport Improvement Program, and the Highway Planning and Construction Cluster (Highway Planning) program, respectively, during the year ended June 30, 2012. During our testwork of eleven subrecipients of the Airport Improvement Program with total expenditures of approximately $24,762,000, and 43 subrecipients of the Highway Planning program with total expenditures of approximately $118,231,000, we noted the following regarding the desk review process:

- The OMB Circular A-133 audit reports for three subrecipients of the Highway Planning program were not received and IDOT did not perform follow up procedures to obtain the reports. Amounts passed through to these subrecipients during the year ended June 30, 2012 totaled $383,561.
- The OMB Circular A-133 reports for two subrecipients of the Airport Improvement Program and four subrecipients of the Highway Planning program were received but had not been reviewed by IDOT as of January 23, 2013, the date of our testwork. The days elapsed between the dates these reports were received and the date of our testwork ranged from 220 to 502. Amounts passed through to these subrecipients during the year ended June 30, 2012 totaled $1,622,047 and $2,757,016, respectively.
- The OMB Circular A-133 audit report for one subrecipient of the Airport Improvement Program and five subrecipients of the Highway Planning program were not date stamped, thus we were unable to determine whether they were reviewed in a timely manner. Amounts passed through to these subrecipients during the year ended June 30, 2012 totaled $10,227,856 and $164,047,885, respectively.
- IDOT did not issue a management decision related to findings reported by three subrecipients of the Highway Planning program. Amounts passed through to these subrecipients totaled $167,791,747 during the year ended June 30, 2012.
- IDOT did not issue management decisions related to findings reported by one subrecipient of the Airport Improvement Program. The amount passed through to this subrecipient totaled $10,227,856 during the year ended June 30, 2012.

Additionally, the standard checklist used by IDOT to document the review of A-133 reports received from subrecipients of the Airport Improvement Program and Highway Planning programs did not include procedures 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 reconciled to IDOT records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

According to OMB Circular A-133 §___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §__.400(d)(5), a pass-though entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure (1) federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits, (2) subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year have met the audit requirements of OMB Circular A-133, including that the audits are completed within nine months after the end of the subrecipients fiscal year end, (3) the subrecipient audit reports are reviewed in a timely manner, and (4) management decisions on reported findings are issued within six months after receipt of the subrecipients' audit reports.

In discussing these conditions with IDOT officials, they stated that the review and revision of current processes had begun, however completion and implementation was not possible until fiscal year 2013.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner and issue management decisions in accordance with OMB Circular A-133 may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-67, 11-78, 10-84, 09-76, 08-80, 07-72, 06-72, 05-77, 04-62, 03-54, 02-48)

Recommendation:

We recommend IDOT establish procedures to ensure that: (1) expenditures passed through to subrecipients per IDOT's records are reconciled to the schedule of expenditures of federal awards submitted in the subrecipients' OMB Circular A-133 audit reports, (2) follow up procedures are performed for all delinquent OMB Circular A-133 reports, (3) desk reviews are performed on a timely basis, and (4) management decisions are issued within six months after receipt of the subrecipients' OMB Circular A-133 audit reports.

IDOT Response:

The Department agrees with the recommendation. The Department recognizes the importance of monitoring the OMB Circular A-133 Single Audit requirements. A procedures manual for completing the Single Audit Desk Reviews has been completed and implemented. Additional forms and checklists have been developed to include proper follow-up and reconciliation procedures. All fiscal year 2013 audits are scheduled to be reviewed using the revised processes and forms.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.106/20.106ARRA ($77,567,000)
20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-68 *Failure to Notify Subrecipients of Federal Funding*

IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement Program and the Highway Planning and Construction Cluster (Highway Planning) programs for the year ended June 30, 2012.

During our testwork of forty grant awards to 33 subrecipients who received approximately $27,487,000 of Airport Improvement Program funds and forty grant awards to 31 subrecipients who received approximately $9,592,000 of Highway Planning funds, we noted the following:

- Eight grant award notices for the Airport Improvement Program and five grant award notices for the Highway Planning program did not communicate the need for an audit in accordance with OMB Circular A-133.
- Thirty-one grant award notices for the Airport Improvement Program and 33 grant award notices for the Highway Planning program included incorrect information regarding the need for an audit in accordance with OMB Circular A-133. Specifically, IDOT notified those subrecipients that an audit in accordance with OMB Circular A-133 is required if the subrecipient receives (rather than expends) proceeds totaling $500,000 or more in federal financial assistance from any source during its fiscal year. Additionally, one grant award for the Airport Improvement Program incorrectly notified subrecipients that an audit in accordance with OMB Circular A-133 is required if the subrecipient receives (rather than expends) proceeds totaling $300,000 or more (rather than $500,000) in federal financial assistance from any source during its fiscal year.
- One grant award notice for the Airport Improvement Program and five grant award notices for the Highway Planning program did not communicate the specific program or CFDA number and title under which federal funding had been provided.

Subrecipient expenditures under the federal programs for the year ended June 30, 2012 were as follows:

Program	Total Fiscal Year 2012 Subrecipient Expenditures	Total Fiscal Year 2012 Program Expenditures	%
Airport Improvement Program	$36,808,000	$77,567,000	47.5%
Highway Planning Program	$257,861,000	$1,496,989,000	17.2%

According to OMB Circular A-133__.400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The pass through entity is also required to advise subrecipients of the need for an audit in accordance with OMB Circular A-133 if a subrecipient expends more than $500,000 in federal financial assistance during its fiscal year. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure required federal award notifications are made to subrecipients.

In discussing these conditions with IDOT officials, they stated that, for the Highway Planning and Construction Program, all the local agency transactions listed had expenditures in fiscal year 2012 but the original funding agreements were executed prior to the correction of the standard agreement forms. For the Airport Improvement Program, the Division of Aeronautics was not aware that the official document communicating the requirements to the subrecipients (i.e. Agency Agreement) still did not include the required language and the agreement was in need of updating.

Failure to inform subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 12-68, 11-79, 10-86, 09-77, 08-81, 07-73, 06-74, 05-78, 04-63)

Recommendation:

We recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

IDOT Response:

The Department agrees with the recommendation. For the Highway Planning and Construction Program, the Department implemented a revised version of the standard agreement in fiscal year 2010. All current standard agreement forms correctly notify the local agencies of the Single Audit requirement and the CFDA number. The projects identified in this finding were initiated prior to full implementation of the revised agreement.

For the Airport Improvement Program, the Division of Aeronautics (Division) has worked with the Office of Internal Audits to develop an acceptable procedure to ensure all required information is properly communicated to its subrecipients and amended Agency Agreement language accordingly.

The Division has revised Aviation Systems and Programs Section PPM 7.1 Agency Agreement to add provisions for the development and utilization of the standardized Agency Agreement template.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-69 *Failure to Follow Sampling and Testing Program for Construction Materials*

IDOT did not test materials used for construction activities under the Highway Planning and Construction Cluster (Highway Planning) program in accordance with their approved sampling and testing program.

The Highway Planning program administered by IDOT provides federal funding to construct and rehabilitate interstate highways and public roads. IDOT is required to have a sampling and testing program in place to ensure that materials and workmanship generally conform to approved plans and specifications. Each State is required to develop their own sampling and testing program which must conform to requirements established by Federal law and must be approved by the Federal Highway Administration (FHWA). IDOT has developed a comprehensive sampling and testing program as documented in the Project Procedures Guide for Sampling Frequencies for Materials Testing and Inspection (the Guide) and the Manual for Materials Inspection (the Manual) that meets these requirements.

IDOT utilizes the Materials Integrated System for Test Information and Communication (MISTIC) system to track which materials require testing and the method of testing to be used. This system is integrated with IDOT's construction billing system in which resident engineers enter quantities used during construction to generate payments to the contractors. If quantities entered do not have a test number which conforms to the type of testing required by the Guide assigned in MISTIC, it is the resident engineer's responsibility to ensure the proper test is completed before payment is made.

During our test work, we selected 65 materials from ongoing (open) construction projects and advanced construction projects and noted three instances where materials were accepted using a method of acceptance that was not in accordance with the Manual.

Additionally, we noted one instance for material used on an advance construction project where the source documents for the material sampling could not be located and accordingly, we were unable to determine whether the proper method of testing was performed. This project was originally bid prior to fiscal year 2006 and the source documentation for materials sampling had been purged in accordance with IDOT's records retention policy.

According to 23 CFR Section 637.205(a), each State's transportation department shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the National Highway System are in conformity with the requirements of the approved plans and specifications, including approved changes.

Additionally, according to 49 CFR Section 18.36(i)(10) and 18.36(i)(11), records must be retained for three years after grantees or subgrantees make final payments and all other pending matters are closed to allow access to the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives for the purpose of making audits or examinations.

Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure materials used in each Federal-aid highway construction project on the National Highway System are tested in accordance with the sampling and testing plan approved by the FHWA.

In discussing these conditions with IDOT officials, they stated that the three occurrences of accepting materials using the wrong method of acceptance appear to be due to a lack of knowledge and/or an oversight. The instance that involves an irretrievable source document appears to be the case of a misplaced or lost document rather than a records retention issue. Other records from the same materials source for the same time period have been retained according to the current retention policy and are still available for review.

Failure to follow the sampling and testing program approved by the FHWA could result in substandard materials and workmanship in the State's interstate highways and public roads. (Finding Code 12-69, 11-80, 10-87, 09-79)

Recommendation:

We recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the FHWA and retain documentation in accordance with federal regulations.

IDOT Response:

The Department agrees with the recommendation. Based on the possible cause for this finding, the Department has already re-emphasized to the districts the importance of using the correct method of acceptance for construction materials and properly documenting this acceptance. The Engineer of Materials and Physical Research presented a reminder to each district during their annual project implementation meetings earlier this spring. Also, the Bureau of Materials and Physical Research (BMPR) and District One have created a new RE materials training course for which a pilot class is scheduled in May 2013. In addition, the BMPR published an updated Manual for Materials Inspection again in March 2013 so current materials acceptance information is readily available.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster
High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
Surface Transportation Discretionary Grants for Capital Investment

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 ($1,496,989,000)
20.319ARRA ($125,635,000)
20.932ARRA ($37,678,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-70 *Failure to Communicate ARRA Information and Requirements to Subrecipients*

IDOT did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Highway Planning and Construction Cluster (Highway Planning), the High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) program, and the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

During our testwork over five ARRA disbursements totaling approximately $1,489,000 to five subrecipients of the Highway Planning program, twelve ARRA disbursements totaling approximately $107,647,000 to one subrecipient of the High Speed Rail program, and fifteen ARRA disbursements totaling approximately $13,745,000 to two subrecipients of the TIGER program, we noted IDOT did not identify the federal award number, catalog of federal domestic assistance (CFDA) title and number, or the amount of the award attributable to ARRA at the time of each disbursement. Additionally, IDOT's grant agreements for the Airport Improvement and the Highway Planning programs did not identify the requirement for their subrecipients to separately report ARRA program expenditures on the schedule of expenditures of federal awards (SEFA) and the data collection form. IDOT passed through ARRA funds of approximately $38,734,000 to subrecipients of the Highway Planning program, approximately $113,687,000 to a subrecipient of the High Speed Rail program and approximately $32,589,000 to subrecipients of the TIGER program during the year ended June 30, 2012.

According to 2 CFR, Chapter I, Part 176.210 (c) and (d), recipients of ARRA funds agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds. When a recipient awards ARRA funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program. Recipients of ARRA funds also agree to require their subrecipients to provide similar identification in their SEFA and data collection form. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required ARRA information is communicated to subrecipients.

In discussing these conditions with IDOT officials, they stated that appropriate staff has been made aware of the requirements and the information is now being provided. Corrective action was implemented in December 2011. As for the Surface Transportation Discretionary Grants for Capital Investment program subrecipients were not identified as such, therefore notifications were not properly communicated.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding Code 12-70, 11-81, 10-85)

Recommendation:

We recommend IDOT implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

IDOT Response:

The Department agrees with the recommendation. In December 2011, the Department implemented corrective action required to properly communicate ARRA information to subrecipients. For the Highway Planning and Construction Program, all instances of non-compliance were prior to this implementation date. For the High Speed Rail program, the Department will properly notify all subrecipients as required if the program has subrecipients in the future. For the Surface Transportation Discretionary Grants for Capital Investment, the corrective action implemented in December 2011 will correct the deficiencies for this program now that the subrecipients have been properly identified.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Airport Improvement Program

CFDA # and Program Expenditures: 20.106/20.106ARRA ($77,567,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-71 *Inadequate Cash Management Procedures*

IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the U.S. Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. The TSA specifies that IDOT draw funds for the Airport Improvement Program using the pre-issuance method, an advance funding technique. This method requires IDOT to request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. During our review of eighty (80) expenditures totaling approximately $36,648,000, we noted a warrant was not issued for one expenditure voucher totaling approximately $10,227,856 within three business days of receiving the federal funds intended to finance these expenditures. The number of days between receipt of federal funds and the issuance of warrants for this expenditure was 22 business days.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with U.S. Treasury Regulations.

In discussing this condition with Department officials, they stated that it was unclear why there was a significant delay between the time the payment was vouchered and the time it was warranted. The Division of Aeronautics monitors when expenditures are vouchered in the FOA system to ensure the warrant is issued within the three business days of receiving the federal funds.

Failure to draw funds in accordance with U.S. Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 12-71, 11-82, 10-88)

Recommendation:

We recommend IDOT implement procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

IDOT Response:

The Department agrees with the recommendation. The Department worked with the Comptroller's Office to implement a "Cash Management Hold" process on August 9, 2012. This process releases the warrants upon receipt of the federal funds to ensure that when federal funds are deposited in a State account they are not held more than three days prior to the day the State makes a disbursement.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-72 *Inaccurate ARRA 1512 Reports*

IDOT did not accurately report expenditures in the quarterly ARRA 1512 report for the Highway Planning and Construction Cluster (Highway Planning) program.

The ARRA 1512 report is required to be submitted on a quarterly basis to report expenditures and other information related to the Highway Planning program. During our review of 40 quarterly reports submitted during the fiscal year ended June 30, 2012, we noted one quarterly ARRA 1512 report erroneously reported expenditure amounts as follows:

Contract Number	Quarter End	Actual Expenditures	Reported Expenditures	Difference
97407	December 31, 2011	$ 365,083	$ 362,643	$ 2,440

Additionally, we identified differences between the ARRA 1512 reports and IDOT's financial records which were not investigated and resolved before the reports were submitted. Specifically, differences identified between the amounts reported on the 1512 report for ARRA funds received/invoiced and ARRA expenditures were not reconciled to IDOT financial records and corrected, as appropriate.

According to the OMB Circular A-133 compliance supplement, dated June 2012, IDOT is required to submit quarterly ARRA 1512 reports within 10 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the key data elements reported on the ARRA 1512 reports are accurate and agree to IDOT's financial records.

In discussing these conditions with IDOT officials, they stated that expenditures were being reconciled monthly and at project close-out. The discrepancy which was noted for the quarter ended December 31, 2011, was actually reconciled the following quarter, ended March 31, 2012. This was when the final reconciled report for this project was submitted, in accordance with this process.

Failure to accurately report expenditures on the ARRA 1512 prevents the USDOT from effectively monitoring and evaluating the performance of the program. (Finding Code 12-72, 11-83)

Recommendation:

We recommend IDOT review the process and procedures in place to prepare and submit ARRA 1512 reports to ensure amounts reported are accurate and reconcile to IDOT's financial records.

IDOT Response:

The Department agrees with the recommendation. The Department strives to ensure accuracy in its quarterly reporting by conducting a "Phase A" review and a "Phase B" review. The "Phase A" review verifies the accuracy of information being entered into the system on new projects. The "Phase B" review is a random sampling of all existing projects to verify job creation numbers and expenditure amounts.

In addition, all projects receive a final reconciliation at close out. Expenditure amounts, award amounts, and subaward amounts are verified at this time. If any discrepancies are found, adjustments are made before the final report is submitted.

The above process is the most efficient and effective utilization of State and project resources. It also ensures that all information is accurate before the project is finalized.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 ($1,496,989,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-73 *Inadequate On-Site Monitoring of Highway Planning Program Subrecipients*

IDOT is not adequately performing and documenting on-site monitoring procedures for subrecipients receiving federal awards under the Highway Planning and Construction Cluster (Highway Planning) program.

IDOT passed through approximately $257,861,000 to 260 subrecipients of the Highway Planning program during the fiscal year ended June 30, 2012. The majority of the subrecipient grants pertain to construction projects for road projects. As a pass though entity, IDOT monitors its subrecipients primarily by reviewing procurement files, receiving periodic expenditure reports, reviewing invoices and cancelled checks prior to reimbursing subrecipients, receiving OMB Circular A-133 audit reports, and performing on-site reviews. IDOT has developed standardized checklists to perform the subrecipient on-site monitoring procedures.

During our review of monitoring reports and checklists prepared for on-site programmatic reviews conducted for eight Highway Planning subrecipients (with expenditures of $7,956,210) during fiscal year 2012, we noted IDOT identified and reported several instances of subrecipient non-compliance with program requirements, including specific IDOT construction policies and procedures. Upon further investigation, we noted IDOT had not performed procedures to ensure subrecipients have taken timely corrective action on monitoring findings prior to reimbursing program expenditures. IDOT's current practice is to follow up on monitoring findings during its final on-site review at the conclusion of the construction project. As these final reviews may occur several months or years later, the follow up procedures are not timely and IDOT may be reimbursing unallowable costs during the course of the project.

According to OMB Circular A-133 §____.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to follow up on findings identified during subrecipient reviews prior to reimbursing program expenditures.

In discussing these conditions with IDOT officials, they stated that corrective action of the prior year finding was not completed during fiscal year 2012.

Failure to adequately monitor subrecipients and to ensure timely corrective action has been taken for on-site monitoring findings could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-73, 11-84)

Recommendation:

We recommend IDOT establish procedures to follow up on on-site monitoring findings to verify corrective actions have been implemented by subrecipients prior to reimbursing program expenditures.

IDOT Response:

The Department agrees with the recommendation. Upon being notified of this finding in the fiscal year 2011 Single Audit, the Joint Construction Progress Review Audit Finding Follow-Up Protocol [corrective action plan] was issued (July 1, 2012) and made effective for the coming fiscal year 2013 construction season.

(Continued)

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants

CFDA # and Program Expenditures: 20.319ARRA ($125,635,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-74 *Inadequate Monitoring of High Speed Rail Program Subrecipient*

IDOT did not monitor all applicable compliance requirements for a subrecipient receiving funding under the High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) program.

IDOT received a grant for approximately $1.1 billion to construct and install the infrastructure necessary to operate high speed passenger rail service between Illinois and Missouri. The agreement between USDOT and IDOT specified a for-profit organization would assist IDOT in completing the construction and installation of the high speed rails. Although IDOT did not consider this entity a subrecipient, the organization is responsible for carrying out significant compliance requirements that normally would be carried out by the State relative to this program. Specifically, the for-profit organization (for-profit subrecipient) is responsible for: (1) designing and engineering the rails, (2) purchasing any materials required to construct and install the rails, (3) selecting and contracting with vendors to assist in constructing and installing the rails, and (4) purchasing real estate along the project route and paying relocation assistance, as necessary.

During our testwork, we noted IDOT has implemented certain procedures to monitor its for-profit subrecipient, which include: reviewing supporting documentation relative to time and material charges incurred by the for-profit subrecipient and its subcontractors, inspecting materials used in the construction of the rails, and performing site visits to monitor the progress of on-going construction and installation activities. However, IDOT has not established procedures to monitor whether the for-profit subrecipient and its subcontractors have complied with the Davis-Bacon Act prevailing wage rate requirements or procured services relative to this project in accordance with the Illinois Procurement Code.

Amounts passed through under the High Speed Rail program to IDOT's for-profit subrecipient during the year ended June 30, 2012 totaled $113,687,000.

According to OMB Circular A-133 section .210(b), characteristics indicative of a federal award received by a subrecipient include when the organization, among other things, has responsibility for programmatic decision making and uses the federal funds to carry out a program of the organization as compared to providing goods and services for a program of the pass-through entity. OMB Circular A-133 section .210(c), also states characteristics indicative of a payment for goods and services received from a vendor include when the organization, among other things, provides goods or services that are ancillary to the operations of the program and are not subject to the compliance requirements of the federal program.

In addition, according to the OMB Circular A-133 Compliance Supplement, dated June 2012, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure procedures designed to monitor subrecipients cover all applicable program compliance requirements.

In discussing these conditions with IDOT officials, they stated that the for-profit entity referenced was properly classified as a vendor, not a subrecipient. The Federal Rail Administration provided guidance during the initial phases of the program and supports this determination.

Failure to properly monitor subrecipients results in noncompliance with OMB Circular A-133 and could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-74, 11-85)

Recommendation:

We recommend IDOT implement procedures to monitor each compliance requirement administered by its for-profit subrecipient of the High Speed Rail program.

IDOT Response:

The Department partially agrees with the finding. The Department is committed to monitoring the vendors for the High Speed Rail Program. We are coordinating our efforts with our Federal funding agency for the project, the Federal Railroad Administration (FRA), to ensure we are meeting their expectations and requirements for the program. The FRA considers the for-profit railroad in question to be a vendor and not a subrecipient. The High Speed Rail Program currently has no subrecipients but we are working on developing subrecipient monitoring protocols in the event of funds being passed through to any typical local agencies who could meet the definition of a subrecipient for this project. We have participated in teleconferences with the FRA and the auditors whereby FRA leadership explained in great detail their determination that they consider the railroad in question to be a vendor and not a subrecipient. The FRA Office of Chief Counsel will be providing a letter to us for the auditors' use, again stating their position that the railroad in question is a vendor and not a subrecipient.

As noted, the Department is committed to properly monitoring the for-profit vendor; however, the auditors are applying criteria applicable to the monitoring of subrecipients as provided in the Compliance Supplement to OMB Circular A-133 and as noted, we and the FRA have concluded that the for-profit railroad is not a subrecipient and subrecipient monitoring is not applicable. This is what precipitates our partial agreement with the finding, and not unwillingness to properly monitor our vendors.

The FRA has graciously worked with us and state they will provide for the auditors a formal letter memorializing the FRA's determination that the railroad in question is considered a vendor and not a subrecipient.

Auditors' Comment:

As stated in the finding above, in our judgment, the for-profit entity receiving the High Speed Rail program funding is a subrecipient of IDOT because it is responsible for making programmatic decisions on IDOT's behalf and carrying out significant compliance requirements that normally would have been performed by IDOT. While we agree that the Federal Railroad Admnistration has stated that the for-profit entity referenced in this finding is a vendor, the formal finding resolution letter has not been issued and other documentation provided by IDOT from the Single Audit Coordinator appears to sustain the prior year finding.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants

CFDA # and Program Expenditures: 20.319ARRA ($125,635,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-75 *Inaccurate High Speed Rail Financial Reports*

IDOT did not prepare accurate financial reports for the High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) program.

IDOT is required to prepare financial status (SF-425) and ARRA 1512 reports on a quarterly basis for the High Speed Rail program. During our testwork over two SF-425 reports and two ARRA 1512 reports, we noted IDOT improperly reported required financial information as follows:

Report	Period Ending	Report Line Item	Amount Reported	Actual Amount	Difference
SF-425	9/30/11	10(a) Cash Receipts	$96,153,384	$85,563,489	$10,589,895
SF-425	3/31/12	10(a) Cash Receipts	$192,254,367	$194,860,030	($2,605,663)
ARRA 1512	9/30/11	Funds Invoiced/Received	$96,153,384	$85,563,489	$10,589,895

Although IDOT indicated federal expenditures on the SF-425 and ARRA 1512 reports were reported using the accrual basis of accounting, the expenditure amounts reflected the best available data at the time the report was prepared, and did not include estimates through the end of the reporting period. Additionally, IDOT did not have a process in place to review the submitted reports and determine if there are any material differences that would require the report to be corrected. IDOT was unable to quantify the amounts that should have been reported on the accrual basis of accounting.

According to the OMB Circular A-133 Compliance Supplement, dated June 2012, IDOT is required to submit a quarterly ARRA 1512 report within 10 days after the reporting period. According to 74 Federal Register 29916, Appendix 3.5, IDOT is required to submit quarterly financial status reports (known as SF-425 reports effective October 1, 2010) within 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure financial and other award information reported in required financial reports is accurate.

In discussing these conditions with IDOT officials, they stated the issue noted was the result of human error.

Failure to accurately prepare financial reports prevents the USDOT from effectively monitoring the High Speed Rail program. (Finding Code 12-75, 11-86)

Recommendation:

We recommend IDOT review the process and procedures in place to prepare financial reports required for the High Speed Rail program and implement the additional procedures necessary to ensure the reports are complete and accurate.

IDOT Response:

The Department agrees with the recommendation. This issue was discovered by the FRA and relayed to the Department's Project Management (PMC) reporting team November 1, 2012. The discovery was a result of two (2) new electronic reporting systems (Delphi – e-Invoicing and grantsolutions.com) now being utilized by FRA. Prior reports equated 2 entries within the SF-425 form (lines 10 a-c). The information is also utilized in the ARRA 1512(c) forms and is consistent with the error previously reported in SF-425s. Box 10a is to indicate "Cash Receipts" or the funds which have been reimbursed by the federal project. Box 10b indicates "Cash Disbursements" or outlays by the grantee. Box 10c is the difference between the two items. In the reporting process, which has since been corrected by the Department and the PMC, these two values were equal; box 10c was zero (0). The correct value for 10a is also available in SF-270 for the reimbursement request during that reporting period. FRA indicated that correction should take place from the discovery point forward and past reports were not to be corrected. The Department's PMC provided the correspondences with the FRA which indicated their notification. The corrective action was taken prior to the audit.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 ($44,662,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-76 *Failure to Account For and Remit Interest Earned on Advance Funding*

IDOT did not account for and remit interest earned on advance funding received under the Homeland Security Cluster program.

During the year ended June 30, 2012, IDOT received approximately $723,000 in advance funding under the Homeland Security Cluster program. During our audit, we noted IDOT deposited the advance funding into an interest-bearing account with the State Treasurer which is commingled with other funds. However, IDOT did not account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

According to the OMB Circular A-133 Compliance Supplement dated June 2012, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, and Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IDOT personnel, they stated corrective action was implemented in March 2012.

Failure to account for and remit interest earned results in lost interest earnings to the U.S. Treasury. (Finding Code 12-76, 11-88, 10-89, 09-80, 08-82, 07-75, 06-76)

Recommendation:

We recommend IDOT account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

IDOT Response:

The Department agrees with the recommendation. The prior year corrective action of implementing a new procedure when requesting reimbursement funds has been developed to coincide with the drawdown of Federal funds for this appropriation. This approach will ensure the processing of Homeland Security invoices are paid to the vendor, and reimbursement deposited thereafter. This procedure was implemented March 1, 2012.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Surface Transportation Discretionary Grants for Capital Investment

CFDA # and Program Expenditures: 20.932ARRA ($37,678,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-77 *Inadequate Monitoring of TIGER Program Subrecipients*

IDOT did not monitor all applicable compliance requirements for subrecipients receiving funding under the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

IDOT received a grant for approximately $100 million to install new traffic control systems, construct a new rail bridge, and make other significant improvements to signals, switches, roadways, sidewalks and other components which will provide substantial congestion relief and safety benefits for the passenger rail and highway systems in Illinois. The agreement between USDOT and IDOT specified that two for-profit first-tier subgrantees or subrecipients would assist IDOT in completing the grant activities. Although IDOT did not consider these entities to be subrecipients, these for-profit organizations are responsible for carrying out significant compliance requirements that normally would be carried out by the State relative to this program. Specifically, the for-profit organizations (for-profit subrecipients) are responsible for: (1) completing the installation or construction activities as defined in each project agreement, (2) purchasing any materials required to complete the projects and complying with the Buy American provisions, (3) selecting and contracting with subcontractors to assist in the construction activities, (4) collecting the required certified payrolls in accordance with the Davis-Bacon Act, and (5) providing quarterly reporting as required by the grant agreement.

During our testwork, we noted IDOT has implemented certain procedures to monitor its for-profit subrecipients, which include reviewing supporting documentation relative to time and material charges incurred by the for-profit subrecipients and its subcontractors and performing site visits to monitor the progress of on-going construction and installation activities. However, IDOT has not established procedures to monitor whether the for-profit subrecipients and their subcontractors have: (1) complied with the Buy American provisions when purchasing materials, (2) procured services relative to the projects in accordance with the Illinois Procurement Code, and (3) complied with Davis-Bacon Act prevailing wage rate requirements. Additionally, IDOT has not established procedures to monitor the accuracy of the financial and other data reported by these organizations which is used by IDOT to prepare reports filed with USDOT.

Amounts passed through under the TIGER program to IDOT's for-profit subrecipients during the year ended June 30, 2012 approximated $32,330,000.

According to OMB Circular A-133 section .210(b), characteristics indicative of a federal award received by a subrecipient include when the organization, among other things, has responsibility for programmatic decision making and uses the federal funds to carry out a program of the organization as compared to

providing goods and services for a program of the pass-through entity. OMB Circular A-133 section .210(c), also states characteristics indicative of a payment for goods and services received from a vendor include when the organization, among other things, provides goods or services that are ancillary to the operations of the program and are not subject to the compliance requirements of the federal program.

In addition, according to the OMB Circular A-133 Compliance Supplement, dated June 2012, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure procedures designed to monitor subrecipients cover all applicable program compliance requirements.

In discussing these conditions with IDOT officials, they stated that due to staff turnover, compliance requirements were not fully implemented as required.

Failure to properly monitor subrecipients results in noncompliance with OMB Circular A-133 and could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-77)

Recommendation:

We recommend IDOT implement procedures to monitor each compliance requirement administered by its for-profit subrecipients of the TIGER program.

IDOT Response:

The Department agrees with the recommendation. Procedures to better monitor the federal compliance requirements applicable to its subrecipients will be implemented. The Department will first review the procedures in place for federal grant compliance for TIGER I projects and work with the appropriate railroad CREATE partners to ensure there is a mutual understanding of those federal compliance requirements and any other regulations or stipulations as stated in the TIGER I grant agreement. The Department then will implement new procedures to monitor Sub-recipients more closely to ensure both The Department and its Sub-recipients are fully compliant with the TIGER I agreement and OMB Circular A-133.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Surface Transportation Discretionary Grants for Capital Investment

CFDA # and Program Expenditures: 20.932ARRA ($37,678,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-78 *Inaccurate TIGER Financial Reports*

IDOT did not prepare accurate financial reports for the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

IDOT is required to prepare financial status (SF-425) and ARRA 1512, reports on a quarterly basis for the TIGER program. During our testwork of two SF-425 reports and fourteen ARRA 1512 reports, we noted IDOT did not prepare the reports based upon its financial records. Additionally, IDOT could not demonstrate how the information reported agreed or reconciled to its financial records.

According to the OMB Circular A-133 Compliance Supplement, dated June 2012, IDOT is required to submit a quarterly ARRA 1512 report within 10 days after the reporting period. According to 74 Federal Register 29916, Appendix 3.5, IDOT is required to submit quarterly financial status reports (known as SF-425 reports effective October 1, 2010) within 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure financial and other award information reported in required financial reports agree or reconcile to financial records.

In discussing these conditions with IDOT officials, they stated that due to staff turnover, reporting requirements were not fully communicated in order to accurately complete the necessary forms.

Failure to accurately prepare financial reports prevents the USDOT from effectively monitoring the TIGER program. (Finding Code 12-78)

Recommendation:

We recommend IDOT review the process and procedures in place to prepare financial reports required for the TIGER program and implement the additional procedures necessary to ensure the reports agree or reconcile to its financial records.

IDOT Response:

The Department agrees with the recommendation. Since multiple sources of reporting information are used for the three federal quarterly reports required for TIGER projects, the Department agrees to review the process and procedures in place to prepare the financial reports, and develop and implement additional quality assurance/quality control measures within that process to ensure consistently accurate financial and project information is being reported quarterly to the federal government.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Surface Transportation Discretionary Grants for Capital Investment

CFDA # and Program Expenditures: 20.932ARRA ($37,678,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-79 *Inadequate Process for Obtaining Certified Payrolls*

IDOT does not have adequate procedures to document required certified payrolls are obtained prior to making payments to contractors for the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

Non-federal entities are required to comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations applicable to contracts governing federally financed and assisted construction. These regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project. Each subcontractor subject to the Davis Bacon Act must submit payrolls on a weekly basis and include a signed certification that they have complied with the prevailing wage rates. Contractors are required to send certified payrolls directly to the Equal Employment Opportunity (EEO) officer, who sends a copy to the construction manager responsible for the oversight of the project.

During our testwork of three contractor payments (totaling approximately $3,040,000) for regular construction projects, we noted IDOT initially indicated certified payrolls were not collected and were not available for any TIGER contractor payments. Several months after our testwork was performed, IDOT located the certified payrolls for the three contractor payments; however, IDOT did not document the date the certifications were received. Accordingly, we were unable to determine if the certifications were received and reviewed by IDOT personnel prior to making payments to the contractors.

Payments made for construction contracts under the TIGER program were approximately $5,083,000 during the year ended June 30, 2012.

According to 29 CFR Section 5.5(a)(3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the State. Each payroll submitted shall be accompanied by a "Statement of Compliance" signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure documentation exists to support that required certified payrolls were received and reviewed prior to making payments to contractors.

In discussing these conditions with IDOT personnel, they stated that due to staff turnover, new staff was unfamiliar with processes in place for gathering certified payrolls thereby creating confusion as to whether the payrolls had been collected.

Failure to obtain and review required certified payrolls prior to making payments to the contractors could result in contractors not paying the prevailing wage rate to employees. (Finding Code 12-79)

Recommendation:

We recommend IDOT establish procedures to ensure required weekly payroll certifications are received and reviewed prior to making payments to the contractors.

IDOT Response:

The Department agrees with the recommendation. The Department will first review the existing procedures in place for payroll verification associated with CREATE project contractors and the railroads and department personnel managing the TIGER I projects. If appropriate procedures are found not to be in compliance with the Davis-Bacon Act and the proper verification of certified payrolls, the Department will implement changes to the procedures in place for obtaining and verifying contractor/subcontractor certified payrolls prior to making payments to the contractors.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Surface Transportation Discretionary Grants for Capital Investment

CFDA # and Program Expenditures: 20.932ARRA ($37,678,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-80 *Failure to Obtain Suspension and Debarment Certifications from Subrecipients*

IDOT did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

During our review of five grant agreement notifications to two subrecipients of the TIGER program (with expenditures totaling approximately $32,330,000 during the year ended June 30, 2012), we noted IDOT did not include a suspension and debarment certification in four of the grant agreements with expenditures totaling approximately $22,060,000 during the year ended June 30, 2012. As a result, IDOT did not receive a certification that these subrecipients of the TIGER program were 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. During the year ended June 30, 2012, IDOT passed through approximately $32,589,000 to three subrecipients of the TIGER program.

According to 49 CFR 18.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, ''Debarment and Suspension.'' The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with IDOT officials, they stated that it was confirmed that procedures are in place to ensure that subrecipients are not suspended or debarred, however the process was not being documented.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding Code 12-80)

Recommendation:

We 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 program.

IDOT Response:

The Department agrees with the recommendation. The Department confirmed that procedures were being followed to ensure that subrecipients are not suspended or debarred. References to and documentation of these procedures will be included in the State Rail Agreements and/or the Phase III document as well as specifications for the railroads to check for suspended and debarred subrecipients.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster Program
High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants

CFDA # and Program Expenditures: 20.106/20.106ARRA ($77,567,000)
20.205/20.205ARRA/20.219 ($1,496,989,000)
20.319ARRA ($125,635,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-81 *Inaccurate Reporting of Federal Expenditures*

IDOT did not accurately report Federal expenditures under the Airport Improvement Program, the Highway Planning and Construction Cluster (Highway Planning) program, and the High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) program.

IDOT inaccurately reported federal expenditures which were used to prepare the schedule of expenditures of federal awards (SEFA) to the Illinois Office of the Comptroller (IOC). Specifically, we noted the following differences for the year ended June 30, 2012:

	Federal Expenditures Reported on the SEFA	Federal Expenditures Reported on the Expenditure Pattern	Difference
Airport Improvement Program	$ 77,830,000	$ 76,808,000	$ 1,022,000
Airport Improvement Program - ARRA	(263,000)	434,000	(697,000)
Highway Planning Program	1,449,598,000	1,421,003,000	28,595,000
Highway Planning Program - ARRA	75,337,000	75,607,000	(270,000)
High-Speed Rail - ARRA	125,635,000	143,301,000	(17,666,000)

Adjustments were subsequently made after these differences were identified during the audit to accurately report federal expenditures in the SEFA.

According to OMB Circular A-133 §__.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the SEFA. According to 2 CFR 176.210(b), recipients must separately identify the expenditures for federal awards under ARRA on the SEFA. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program

compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

In discussing this with IDOT officials, they stated the discrepancies are due to audit adjustments made in the Department financial records but not in the GAAP packages reported to the IOC.

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 12-81, 11-87)

Recommendation:

We recommend IDOT establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

IDOT Response:

The Department agrees with the recommendation. The Department has added additional staff to the business unit responsible for the financial reporting. This will allow for the implementation of quality control procedures along with the review and revision of current financial reporting procedures.

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: U.S. Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster
Surface Transportation Discretionary Grants for Capital Improvement

CFDA # and Program Expenditures: 20.106/20.106ARRA ($77,567,000)
20.205/20.205ARRA/20.219 ($1,496,989,000)
20.932ARRA ($37,678,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-82 *Inadequate Controls over Information Systems*

IDOT does not have adequate program change management controls over the IDOT Integrated Transportation Project Management system.

The information technology applications 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)

The ECM and ELM systems are used during the initial letting stages of the construction contract. The ECM houses the estimates made for the projects and the ELM system stores the bids from the contractors. The ICORS system is used by the resident engineers to record the progress of each job for billing purposes, which is interfaced with the BCM system. The data from the BCM system is interfaced with the FOA system to generate the payment to the contractor, and is also interfaced with the FPC system to generate the federal billing.

During our testwork over changes made to IDOT's information systems, we noted IDOT was not able to generate a list of changes made to its information systems from each respective information system or application. IDOT's current procedures include tracking changes made to its information systems in a database; however, the information input into the database is based on manual change request forms. Accordingly, we were unable to determine whether the list of changes provided by IDOT from the database during our audit was complete.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems

associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with IDOT officials, they stated once IDOT submits an Action Request (AR) to the Illinois Department of Central Management Services (DCMS) there was not a process in place to tie the IDOT AR number to the DCMS change number.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 12-82)

Recommendation:

We recommend IDOT implement procedures to ensure all information systems are adequately secured and to generate a list of program changes from the information systems and applications.

IDOT Response:

The Department agrees with the recommendation. The Department has been in communication with DCMS regarding the ability to track the IDOT AR number to the DCMS change ticket number. The Department and DCMS have developed the following corrective action to remediate this finding. BIP will include the AR number when submitting the production change request to DCMS Library Support. Upon the move to production, DCMS will include the job name and number on the communication to IDOT upon the successful move of the change to production. IDOT will store this number in the Action Request form. This change in procedure will link the IDOT AR number and the DCMS change number. This change is targeted for implementation by May 16, 2013.

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Homeland Security Grant Program
Disaster Grants Public Assistance (Presidentially Declared Disasters)

CFDA # and Program Expenditures: 97.036 ($57,987,000)
97.067 ($44,662,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-83 *Inadequate Review of Subrecipient OMB Circular A-133 Reports*

IEMA does not have an adequate process to review subrecipient OMB Circular A-133 reports.

IEMA requires subrecipients expending more than $500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IEMA staff is responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IEMA records; and (3) Type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, IEMA staff is responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on reported findings within the prescribed timeframe.

During our testwork of 40 subrecipients of the Disaster Grants – Public Assistance (Presidentially Declared Disasters) (Public Assistance) program and 40 subrecipients of the Homeland Security Grant program with total expenditures of $37,405,640 and $9,727,986, respectively, we noted the following:

- IEMA did not obtain the OMB Circular A-133 audit reports for 21 subrecipients of the Public Assistance program, and did not perform follow up procedures to obtain the reports. Amounts passed through to these subrecipients totaled $3,076,639 during the year ended June 30, 2012.
- IEMA did not complete a desk review checklist for one subrecipient of the Homeland Security Grant Program. Amounts passed through to this subrecipient totaled $8,538,686 during the year ended June 30, 2012.
- IEMA did not reconcile the federal expenditures reported in the schedule of expenditures of federal awards included in subrecipient A-133 audit reports to IEMA's records for any subrecipients of the Public Assistance program selected for testwork or for one subrecipient of the Homeland Security Grant program selected for testwork. Amounts passed through to the subrecipient of the Homeland Security Grant program totaled $7,437,042 during the year ended June 30, 2012.
- IEMA did not issue management decisions related to findings reported by one subrecipient of the Public Assistance program and two subrecipients of the Homeland Security Grant program. Amounts passed through to these subrecipients under the Public Assistance and Homeland Security Grant programs during the year ended June 30, 2012 totaled $77,003 and $15,975,728, respectively.

(Continued)

Additionally, the standard checklist used by IEMA to document the review of the A-133 reports did not contain sufficient documentation to determine whether the audit reports met all audit requirements of OMB Circular A-133 and whether Type A programs were audited every three years. Total awards passed through to subrecipients of the Public Assistance and Homeland Security Grant programs were approximately $51,346,000 and $38,118,000, respectively, during the year ended June 30, 2012.

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the 2012 OMB Circular A-133 compliance supplement, a pass-though entity is required to 1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IEMA officials, they stated the error is partially attributed to the continued vacancy of the agency's Compliance Officer during the state fiscal year. The position is responsible for management of sub-recipient monitoring activities, including A-133 reviews. Additionally, IEMA has been in the process of revising the internal protocol for the oversight of A-133 submissions, resulting in missed reviews.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner and issue management decisions in accordance with OMB Circular A-133 may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-83, 11-90, 10-91)

Recommendation:

We recommend IEMA establish procedures to ensure that: (1) follow up procedures are performed for all delinquent OMB Circular A-133 reports; (2) expenditures reported in Subrecipient A-133 audit reports are reconciled to IEMA's records; (3) desk reviews are performed on a timely basis for all subrecipients; and (4) management decisions are issued within required timeframes. We also recommend IEMA review its A-133 Audit Desk Review checklist and make the changes necessary to ensure all review requirements are included.

IEMA Response:

IEMA accepts the finding and is continuing to work on improving the process by creating a standard procedure and checklist for use for all grant programs. We are also attempting to identify funding and staffing that can focus on performing these functions.

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Homeland Security Grant Program

CFDA # and Program Expenditures: 97.067 ($44,662,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-84 *Failure to Deposit Funds in an Interest-Bearing Account*

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, 2012, IEMA received $44,594,000 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 owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated June 2012, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with Agency personnel, they stated legislation was required in order to deposit funds in an interest bearing account. That legislation was introduced in the Spring Session of 2012 and the Governor signed into law in July 2012.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 12-84, 11-91, 10-94, 09-83, 08-85)

Recommendation:

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

IEMA Response:

IEMA accepts this finding and has already created and is utilizing an interest bearing account for these funds.

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

CFDA # and Program Expenditures: 97.036 ($57,987,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-85 *Failure to Draw Funds Only for Immediate Cash Needs*

IEMA did not minimize the time elapsing between the drawdown of federal funds from the U.S. Treasury and their disbursement for program purposes.

During our review of 40 expenditures (totaling $2,607,795) funded under the advanced basis related to the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, we noted warrants were not issued for 30 expenditure vouchers, totaling $2,161,053 within three business days of receiving federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants ranged from four to 28 business days. Total expenditures for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program administered by IEMA were $57,987,000 during the year ended June 30, 2012.

According to 44 CFR 13.21(b), grantees are required to implement methods and procedures for payment which minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement of funds in accordance with the Treasury Regulations at 31 CFR part 205 (Treasury Regulations). The Treasury Regulations require programs with less than $65,520,000 in expenditures follow Subpart B – Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State agreement. According to 31 CFR 205.33(a), grantees following Subpart B are required to implement procedures to ensure that the timing and amount of fund transfers be as close as is administratively feasible to a State's actual cash outlay for program costs, which based on discussions with Federal agencies, has been interpreted to be within 3 business days of receipt of federal funds. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to minimize the time elapsing between the receipt of federal funds and their disbursement.

In discussing these conditions with IEMA personnel, they stated IEMA continuously strives to minimize the number of days between draws and payment.

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 12-85, 11-93, 10-93, 09-87)

Recommendation:

We recommend IEMA implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations.

IEMA Response:

IEMA accepts this finding. During this period, IEMA's accounts payable function was still housed at the Public Safety Shared Services Center. This results in another entity to try to coordinate timing with and could sometimes cause additional delays. This function has now been returned to the agency.

However, in the best case scenario, it is almost impossible to complete the process so that the time elapsed between the drawdown of funds and issuance of a warrant is 3 days or less. IEMA will continue to review our process for further efficiencies, however

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Homeland Security Grant Program

CFDA # and Program Expenditures: 97.067 ($44,662,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-86 *Inadequate Process to Report Subaward Information Required by FFATA*

IEMA does not have an adequate process to ensure all subaward information is properly reported as required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Homeland Security Grant program.

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to $25,000 for federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the subaward agreement was signed, and (5) the subaward or other identifying number assigned by the State. During our testwork, we noted IEMA did not report required FFATA information for five Homeland Security Program subawards which totaled $22,093,000 during the year ended June 30, 2012. Subawards made under the Homeland Security Grant programs subject to FFATA reporting requirements totaled approximately $73,359,000 for the year ended June 30, 2012.

According to 2 CFR 170, a pass through entity is required to report certain identifying information for each subaward of federal funds greater than or equal to $25,000. In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures to ensure subawards are properly reported in accordance with FFATA.

In discussing these conditions with IEMA personnel, they stated IEMA proactively developed an internal system for collection of FFATA information for sub-grantees impacted by the federal reporting requirement. Because of the infancy of the federal reporting program, some subaward information was inadvertently omitted from the report.

Failure to report subawards under FFATA reduces the transparency of the federal spending to the public and results in noncompliance with federal regulations. (Finding Code 12-86)

Recommendation:

We recommend IEMA establish procedures to report required subaward information in accordance with FFATA.

IEMA Response:

IEMA accepts the finding, however, we believe we have continually made a good faith effort to report all required data. We have developed procedures that ensure that future FFATA information reported is complete and accurate.

State Agency: Illinois State Police (State Police)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Homeland Security Grant Program

CFDA # and Program Expenditures: 97.067 ($44,662,000)

Award Numbers: See schedule of award numbers

Questioned Costs: Cannot be determined

Finding 12-87 *Failure to Deposit Funds in an Interest-Bearing Account*

State Police 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, 2012, State Police received $3,530,000 in draws under the Homeland Security Cluster program that were not deposited into an interest-bearing account. Additionally, State Police did not calculate or remit any potential interest owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated June 2012, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with Agency personnel, they stated legislation was pursued to make the Federal Projects Fund an interest bearing account. This was passed and enacted in FY13.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 12-87, 11-94, 10-96, 09-89, 08-90)

Recommendation:

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

State Police Response:

Agree. Legislation was passed to make the Federal Projects Fund an interest bearing account. Interest is being earned and sent to the grantor agencies in fiscal year 2013.

State Agency: Illinois State Police (State Police)

Federal Agency: U.S. Department of Homeland Security (USDHS)

Program Name: Homeland Security Grant Program

CFDA # and Program Expenditures: 97.067 ($44,662,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-88 *Failure to Maintain Accurate Equipment Inventory Records*

State Police did not consistently maintain accurate inventory records of equipment purchased with Homeland Security Cluster program funding.

During our physical observation of 65 pieces of equipment (totaling $914,472) purchased with Homeland Security Grant Funds, we noted one items selected from the equipment inventory listing (with a cost value of $6,079) had been destroyed in a prior year, but had not been removed from the equipment inventory list.

As of June 30, 2012, the cumulative cost value of equipment purchased by the State Police with Homeland Security Cluster program funding was $3,046,000.

According to the 2012 OMB Circular A-133 Compliance Supplement, a State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with the State's laws and procedures. According to the Illinois Compiled Statutes State Property Control Act, 30 ILCS 605/6.02, each responsible officer shall maintain a permanent record of all items of property under his jurisdiction and control. The listing shall include all property being acquired under agreements which are required by the State Comptroller to be capitalized for inclusion in the statewide financial statements. The A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure equipment inventory records are accurately maintained.

In discussing these conditions with State Police personnel, they stated that the mobile data computer was destroyed in a vehicular crash. It was inadvertently omitted from the deletion sheet for the equipment involved.

Failure to maintain accurate inventory records results in noncompliance with property management regulations. (Finding Code 12-88)

Recommendation:

We recommend the State Police implement procedures to ensure its property records are accurate.

State Police Response:

Agree. We have procedures for property management. Human oversight was the cause of one item not being deleted from inventory.

State Agency: Illinois Environmental Protection Agency (IEPA)

Federal Agency: U.S. Environmental Protection Agency (USEPA)

Program Name: Clean Water State Revolving Fund
Drinking Water State Revolving Fund

CFDA # and Program Expenditures: 66.458/66.458 ARRA ($179,000)
66.468 ($64,759,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-89 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IEPA does not have an adequate process in place for obtaining OMB Circular A-133 audit reports and issuing management decisions on A-133 findings for subrecipients of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) program.

IEPA requires subrecipients expending more than $500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IEPA program staff are responsible for reviewing the audit reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IEPA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, IEPA program staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on findings reported within required timeframes (i.e. six months).

During our testwork over OMB Circular A-133 desk review procedures performed for 17 subrecipients of the CWSRF program and 17 subrecipients of the DWSRF program who were required to submit OMB Circular A-133 audit reports during the year end June 30, 2012, we noted the following exceptions:

- The OMB Circular A-133 audit reports for one CWSRF subrecipient and one DWSRF subrecipient contained findings for which the IEPA did not issue management decisions.
- The OMB Circular A-133 audit report for one DWSRF subrecipient appears to have improperly excluded the DWSRF program from the list of major programs in the schedule of findings and questioned costs. We noted no follow up procedures were performed by IEPA to determine if the major program determination was properly performed.
- The OMB Circular A-133 audit report for one CWSRF subrecipient appears to have reported an inaccurate CFDA number for CWSRF funding passed through from the IEPA. We noted no follow up procedures were performed by IEPA relative to this discrepancy.
- The A-133 desk review checklists for two CWSRF subrecipients were not properly completed by the IEPA.

In addition, we noted an A-133 audit report was not obtained for one of the 17 DWSRF subrecipients selected for testwork. Upon further review of all 78 subrecipients required to submit A-133 audits to IEPA during the year ended June 30, 2012, we noted the following:

- A-133 audit report desk reviews were not performed for seven subrecipients of the DWSRF program and seven subrecipients of the CWSRF program.
- A-133 audit reports were not obtained for one subrecipient of the DWSRF program as of the date of our testwork. There was no evidence that additional follow-up procedures were performed by IEPA to obtain the missing report.

According to OMB Circular A-133 §__.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §__.400(d)(5), a pass-though entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure subrecipient A-133 audit reports are obtained and properly reviewed in a reasonable timeframe and management decisions are issued within required timeframes.

In discussing these conditions with IEPA officials, they stated these conditions were due to oversight and differing interpretations as to when a management letter was necessary.

Failure to obtain and properly review subrecipient A-133 audit reports and issue management decisions for subrecipient findings may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 12-89, 11-95, 10-97)

Recommendation:

We recommend IEPA establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained and properly reviewed in a reasonable timeframe and (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

IEPA Response:

Accepted. The IEPA continues to refine its procedures for ensuring that subrecipient's meet their A-133 audit requirements. Specifically, the IEPA implemented revisions to its tracking procedures on July 1, 2011 that included: modified delinquency notices designed to inform, and stress to, subrecipient's that noncompliance with A-133 requirements is a violation of the loan agreement; and new procedures using the federal clearinghouse for subrecipient A-133 audit report information. These changes, along with renewed efforts to inform non-compliant subrecipient's that the IEPA will seek all remedies set forth in the loan rules, including referral to the Federal Clearinghouse for further action as prescribed under OMB Circular A-133, have significantly improved the performance of the A-133 monitoring system utilized by the IEPA.

Despite the changes detailed above, the IEPA did not achieve 100% compliance in monitoring subrecipient audit reports and the A-133 audit process. The IEPA will continue to work toward improved compliance, and in doing so is committed to monitoring submission data for subrecipient audit reports,

and to use all available remedies when A-133 reports are not received in a timely manner which will include phone calls, emails and notice letters. We will modify our system to send out an additional notice 7 months after the subrecipient's fiscal year end stating if required the audit report is due at the end of the 9th month, if not required the checklist is due at the end of the 9th month. The IEPA will continue its efforts to carefully monitor the A-133 subrecipient tracking spreadsheet, and will focus on checklists to ensure that each checklist is properly completed, signed and filed. Any concerns identified in subrecipient audit reports or in the IEPA review of subrecipient reports will be resolved through a management decision letter.

State Agency: Illinois Governor's Office of Management and Budget (GOMB)

Federal Agency: U.S. Department of Transportation (USDOT)
U.S. Department of Education (USDE)

Program Name: High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
Title I, Part A Cluster
Special Education Cluster
Education Jobs Fund

CFDA # and Program Expenditures: 20.319ARRA ($125,635,000)
84.389ARRA ($71,834,000)
84.391ARRA ($94,470,000)
84.410ARRA ($114,857,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-90 *Inadequate Procedures for Amending the Treasury-State Agreement*

The State does not have adequate procedures in place to ensure the Treasury-State Agreement (TSA) is amended in accordance with federal regulations.

Annually, the State of Illinois negotiates the TSA with the U.S. Department of the Treasury (the Treasury), which details the funding techniques to be used for the draw down of federal funds. The TSA is required to include all major federal assistance programs exceeding $85,262,000 based on the most recent Statewide Single Audit Report; however, the State is also required to amend the TSA within 30 days of determining that a program will exceed the expenditure threshold.

During our audit, we noted the High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Title I Grants to Local Educational Agencies, Recovery Act, Special Education Grants to States, Recovery Act, and Education Jobs Fund programs were expected to exceed the $85,262,000 program expenditure threshold in fiscal year 2012 based on amounts awarded; however, the TSA was not amended to include these programs during fiscal year 2012.

According to 31 CFR 205.9(b), a State must use its most recent Single Audit report as a basis for determining the funding thresholds for major Federal assistance programs to be included in the TSA, and the TSA must be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. According to 31 CFR 205.7(c), a State must notify the Treasury within 30 days of the time the State becomes aware of a change, and must describe the change in the notification. Amendments may address, but are not limited to, additions and deletions of Federal assistance programs subject to the TSA.

In discussing these conditions with GOMB personnel, they stated that they continue to work as part of the task force designing and/or obtaining and implementing a statewide financial reporting system that will address both this and many other issues raised by the State's Single Audit.

Failure to amend the TSA when required is a violation of the Cash Management Improvement Act (CMIA) and may result in interest liabilities being assessed to the State. (Finding Code 12-90, 11-100, 10-101)

Recommendation:

We recommend the State establish procedures to ensure the TSA is amended for any necessary changes in accordance with federal regulations.

GOMB Response:

GOMB agrees with the auditor's recommendation. We have updated the procedures previously adopted to increase communications with agencies concerning the importance of timely amending the TSA. A copy of those procedures is available upon request. Additionally, we have sought more training on proper CMIA compliance for the staff responsible for this process.

State Agency: Illinois Criminal Justice Information Authority (ICJIA)

Federal Agency: U.S. Department of Justice (USDOJ)

Program Name: Justice Assistance Grant Cluster

CFDA # and Program Expenditures: 16.738/16.803ARRA ($20,065,000)

Award Numbers: See schedule of award numbers

Questioned Costs: None

Finding 12-91 *Failure to Obtain and Review Subrecipient OMB Circular A-133 Audit Reports*

ICJIA did not obtain or review all OMB Circular A-133 audit reports for subrecipients of the Justice Assistance Grant (JAG) Cluster program.

During our review of 25 subrecipient monitoring files for the JAG Cluster program, we noted ICJIA had not obtained OMB Circular A-133 audit reports for 11 of the subrecipients selected for our testwork. We also noted ICJIA did not perform procedures to follow up with subrecipients that had not submitted audit reports. Upon further review of the audit reports obtained by ICJIA, we noted ICJIA did not perform a review of the A-133 reports for any of its subrecipients during fiscal year 2012. ICJIA passed through approximately $12,068,000 to subrecipients of the JAG Cluster program during the year ended June 30, 2012.

According to OMB Circular A-133 §___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated June 2012, a pass-though entity is required to 1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with ICJIA officials, they stated that the conditions identified in the finding were the result of a lack of staffing.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. Additionally, failure to issue management decisions within six months of receiving OMB Circular A-133 audit reports results in noncompliance with federal regulations. (Finding Code 12-91)

Recommendation:

We recommend ICJIA establish procedures to ensure all subrecipients receiving federal funds have audits performed in accordance with OMB Circular A-133 and management decisions are issued where required.

ICJIA Response:

The A-133 audit reviews had previously been conducted by ICJIA's Internal Auditor. However, that position has been vacant since the previous incumbent retired at the end of 2011. The Chief Financial Officer left ICJIA in March of 2012. Due to budget constraints and hiring delays, there are currently three vacancies out of ten positions in ICJIA's Office of Fiscal Management. These vacancies have adversely impacted ICJIA's OFM ability to review A-133 audits.

During State fiscal year 2012 ICJIA's practice was not to require that grantees submit the A-133 audit reports until the close of the grant period. We recognize now that was not in strict compliance with the A-133 Circular and its Supplements and will take corrective action. However, ICJIA did engage in oversight procedures that mitigated the deficiency. ICJIA did require grantees subject to A-133 audits to submit the financial statements prepared by the grantee's auditors during the course of the A-133 on a yearly basis. Those statements would have alerted ICJIA if the auditors found a deficiency in internal controls by the grantee. The financial statements were reviewed by ICJIA's Acting Chief Fiscal Officer either at the time of receipt or within the week in which they were received.

While some of the A-133 audits received during State fiscal year 2012 were reviewed by ICJIA within State fiscal year 2012, some were not reviewed until after the close of the State fiscal year. In accord with the recommendation, ICJIA will take immediate steps to make its procedures with regard to sub-recipient A-133 audits more stringent. Specifically:

1. ICJIA will require all sub-recipients for whom an A-133 audit is required to submit the A-133 audit reports within 30 days after the completion of the audit report (nine months after the end of the sub-recipient's audit period), rather than at the end of the grant period which has been ICJIA's practice.
2. ICJIA will cause all such A-133 audit reports to be reviewed within 30 days of receipt by ICJIA by use of a checklist to ensure that all appropriate issues are considered.
3. Copies of the checklist will be filed in the grantee master file.
4. ICJIA will issue a management decision on any audit findings contained in the A-133 report within six months after receipt of the sub-recipient's audit report.
5. ICJIA will ensure that the sub-recipient takes timely and appropriate corrective action on all audit findings and in the case of continued inability or unwillingness of a subrecipient to have the required audits, ICJIA shall take appropriate action using sanctions.
6. ICJIA will modify its electronic grants management system to require entries, as follows:
    a. For each grant ICJIA processes, the grant monitor will enter whether an A-133 audit is required for the grantee.
    b. For those grantees for which an A-133 audit is required (A-133 grantees), the grant monitor will enter the end date of the grantee's audit period.
    c. For all A-133 grantees, the grant monitor will enter a date 30 days after the end of the grantee's audit period, to cause the grant monitor to ensure that an A-133 audit report has been received.

d. For all A-133 grantees, the grant monitor will enter the date of receipt of the A-133 audit report and the date on which a copy of the report is transferred to the Office of Fiscal Management.
e. For all A-133 audit reports so received, staff from the Office of Fiscal Management will enter the date on which the review of the A-133 audit report is completed, the name of the person doing the review and whether there are findings or other issues from the audit review that require follow-up.

STATE OF ILLINOIS
Schedule of Award Numbers
Year ended June 30, 2012

Name of Federal Program or Cluster (CFDA #)

Supplemental Nutrition Assistance Program Cluster (10.551/10.561):

Award Number			
11Q2703	11S2519	12IE2518	2012IS251442
11Q6503	11S2520	2012IS251942	2011IQ390342
11S2514	11S8036	12S2520	

Special Supplemental Nutrition Program for Women, Infants, and Children (10.557):

Award Number			
10W500342	11W1006	12W1003	11W1003
10W1003SF	2011IW500342	12W1006	11W1003SF

Edward Byrne Memorial Justice Assistance Grant Cluster (16.738/16.803ARRA):

Award Number			
2007-DJ-BX-0084	2009-DJ-BX-0023	2009-SU-B9-0055	2011-DJ-BX-2214
2008-DJ-BX-0034	2010-DJ-BX-0015	2008-DJ-BX-0758	

Employment Services Cluster (17.207/17.801/17.804):

Award Number			
ES220621155A17	DV196381055517	ES207471055A17	ES175580855A17

Unemployment Insurance Program (17.225/17.225ARRA):

Award Number			
UI180180955A17	UI80180955A17ARRA	UI210971155A17	UI210971155A17ARRA
UI195801055A17	UI195801055A17ARRA		

Workforce Investment Act Cluster (17.258/17.259/17.260/17.278):

Award Number			
AA-17119-08-55-A-17	AA-21393-11-55-A-17	EM-20488-10-60-A-17	AA-18637-09-55-A-17
AA-20192-10-55-A-17			

Airport Improvement Program (20.106/20.106ARRA):

Award Number			
3-17-0000-005	3-17-0033-31	3-17-0088-60	3-17-SBGP-74
3-17-0000-006	3-17-0033-35	3-17-0088-61	3-17-SBGP-75
3-17-0006-45	3-17-0033-38	3-17-0088-62	3-17-SBGP-76
3-17-0006-46	3-17-0065-28	3-17-0088-63	3-17-SBGP-80
3-17-0006-48	3-17-0065-29	3-17-0096-48	3-17-SBGP-82
3-17-0006-49	3-17-0068-63	3-17-0096-49	3-17-SBGP-84
3-17-0006-51	3-17-0068-64	3-17-0096-51	3-17-SBGP-85
3-17-0006-52	3-17-0068-65	3-17-0096-54	3-17-SBGP-86
3-17-0006-53	3-17-0068-66	3-17-0096-55	3-17-SBGP-87
3-17-0006-55	3-17-0068-67	3-17-0096-56	3-17-SBGP-88
3-17-0006-57	3-17-0068-68	3-17-0096-57	3-17-SBGP-89
3-17-0016-027	3-17-0068-69	3-17-0096-58	3-17-SBGP-90
3-17-0016-25	3-17-0080-45	3-17-0096-59	3-17-SBGP-91
3-17-0016-26	3-17-0080-46	3-17-0096-60	3-17-SBGP-92
3-17-0022-106	3-17-0080-51	3-17-0146-28	3-17-SBGP-93
3-17-0022-109	3-17-0080-52	3-17-0151-01	3-17-SBGP-94
3-17-0022-113	3-17-0080-53	3-17-SBGP-56	3-17-SBGP-95
3-17-0022-115	3-17-0080-54	3-17-SBGP-60	3-17-SBGP-96
3-17-0022-116	3-17-0080-55	3-17-SBGP-62	3-17-SBGP-97
3-17-0022-118	3-17-0080-56	3-17-SBGP-64	3-17-0080-50ARRA
3-17-0022-97	3-17-0080-57	3-17-SBGP-66	3-17-0022-104ARRA
3-17-0022-98	3-17-0088-51	3-17-SBGP-69	3-17-SBGP-78ARRA
3-17-0025-77	3-17-0088-56	3-17-SBGP-70	3-17-0096-50ARRA
3-17-0027-08	3-17-0088-58	3-17-SBGP-73	

High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants Program (20.319ARRA):

Award Number	
FR-HSR-0015-11-01-00	FR-HSR-0015-11-01-01

Surface Transportation Discretionary Grants for Capital Investment (20.932ARRA):

Award Number			
0020054	0020055	0020057	0020059
0020060	6000331	9003709	

(Continued)

STATE OF ILLINOIS
Schedule of Award Numbers
Year ended June 30, 2012

Name of Federal Program or Cluster (CFDA #)
Highway Planning and Construction Cluster (20.205/20.205ARRA/20.219):

Project Number

0001091	0025064	0053101	0079138	0111042	0162009	0193038	0301072	0316039	0328030	0338038	0352015	0505024
0001105	0025065	0055057	0079141	0111043	0162012	0193042	0303027	0316110	0329013	0338039	0353014	0506012
0001108	0025066	0055058	0079144	0111046	0163032	0193043	0303046	0316111	0329106	0338042	0353016	0510033
0001110	0025069	0055060	0081052	0111049	0165027	0193050	0303048	0317016	0330046	0338043	0353017	0514011
0001111	0025071	0055061	0081053	0111050	0165028	0193051	0303049	0317075	0330048	0339026	0353019	0516109
0003002	0025072	0055070	0081055	0111052	0165029	0193054	0303050	0317085	0330049	0339028	0353020	0516112
0006034	0026003	0055105	0081056	0111054	0165031	0193057	0303051	0317086	0330050	0339111	0360013	0517055
0011075	0027039	0057031	0083040	0111058	0167048	0195105	0303052	0317088	0330053	0340104	0362001	0517056
0011076	0027040	0057100	0083045	0111061	0167052	0197097	0303053	0317089	0330057	0341018	0362002	0517057
0011077	0027042	0061042	0083046	0113027	0167053	0197099	0305031	0317090	0330061	0341024	0365012	0517058
0011078	0028107	0061045	0085048	0113028	0167055	0197105	0305036	0317106	0330062	0341033	0365013	0517108
0011083	0029112	0061049	0085049	0113031	0167064	0197106	0305038	0317108	0330063	0341035	0365014	0517109
0011084	0029113	0061051	0085050	0113033	0167065	0197110	0305042	0317111	0330064	0341047	0366001	0520001
0011100	0029282	0063029	0086108	0113034	0169038	0197113	0305043	0318008	0330065	0341048	0366003	0520002
0011102	0029284	0063059	0087109	0116051	0173135	0197118	0305044	0318011	0330066	0341050	0366004	0520004
0011103	0029288	0063106	0089123	0116055	0173140	0199035	0305046	0318013	0331048	0341051	0366005	0522008
0011110	0029289	0064007	0089127	0116056	0173158	0199037	0307028	0318014	0331049	0341053	0366007	0524001
0011111	0029291	0065044	0089134	0117069	0173159	0200019	0307029	0318106	0331050	0342007	0368008	0524004
0011112	0031030	0065045	0089137	0117073	0173163	0201028	0307030	0319111	0331052	0342107	0368102	0524005
0011113	0031033	0065047	0089138	0117075	0173164	0201029	0307031	0319112	0331054	0343014	0369010	0525107
0011114	0031034	0065104	0089141	0119069	0173165	0201030	0307033	0320030	0331055	0343015	0369106	0525112
0011115	0031108	0067079	0089142	0121049	0173168	0203022	0307035	0320035	0331056	0343016	0370004	0525117
0011117	0034026	0067080	0089147	0121050	0173169	0203023	0307036	0321014	0331057	0343017	0370006	0525118
0011118	0034028	0067107	0089151	0121054	0173170	0203106	0308034	0321117	0331059	0344039	0370010	0531108
0013011	0034102	0067132	0089155	0121055	0173172	0204101	0308035	0322067	0331060	0344040	0370011	0533008
0013134	0034104	0067133	0089160	0121056	0173174	0206113	0308036	0322068	0331119	0344042	0370012	0533011
0015043	0034107	0067135	0089161	0121058	0173175	0206117	0308037	0322092	0331151	0344046	0372010	0534009
0015045	0036107	0067141	0091071	0124017	0173176	0206118	0308103	0322093	0332089	0344049	0374013	0535103
0015047	0037052	0067145	0091072	0127019	0176106	0209003	0309011	0322094	0332091	0344050	0374014	0537013
0017121	0037053	0068094	0091126	0129015	0177034	0209005	0309012	0322095	0332093	0344051	0376002	0537015
0017123	0037054	0068104	0093014	0129021	0177036	0209006	0309014	0323028	0332094	0344053	0376109	0542005
0019008	0037055	0068107	0094105	0131049	0177038	0209007	0310092	0324014	0332098	0344054	0377038	0543105
0019125	0037056	0068108	0095052	0132131	0177039	0209009	0310097	0324016	0332099	0345039	0378003	0545003
0019127	0038043	0068109	0095054	0132132	0177041	0209013	0310125	0324019	0332105	0345044	0387005	0546009
0019128	0039027	0068110	0095056	0133012	0177120	0209017	0310126	0324020	0332106	0345052	0389004	0551082
0019130	0040011	0068111	0095057	0133033	0178103	0209019	0310129	0325046	0332107	0345053	0389104	0551084
0019131	0040113	0071055	0095130	0135038	0179026	0209020	0310130	0325050	0333014	0345054	0391015	0552121
0020011	0041091	0071118	0095132	0135039	0179028	0209021	0310134	0325051	0333015	0346014	0391017	0552122
0020025	0041093	0071122	0095133	0139055	0179033	0209023	0310136	0325053	0334005	0347013	0391018	0553148
0020026	0041095	0072102	0099038	0139057	0179035	0209025	0310139	0325055	0334017	0347015	0391025	0553151
0020030	0041098	0072103	0099039	0139058	0179036	0209026	0310140	0325056	0334019	0347016	0391028	0553154
0020032	0041099	0073057	0099043	0139059	0181042	0209027	0310141	0325057	0334020	0347023	0391029	0554168
0020039	0041129	0073061	0099045	0139060	0181045	0214111	0310142	0326050	0334021	0347024	0391031	0554169
0020040	0041134	0073103	0099046	0140004	0181047	0217102	0310145	0326060	0335013	0347026	0392007	0554170
0020041	0042099	0073104	0101034	0141066	0183093	0217105	0310146	0326067	0335016	0347027	0392008	0554171
0020042	0042102	0075126	0101036	0141067	0183098	0236104	0310148	0326070	0336004	0348026	0393005	0554172
0020043	0042103	0075128	0101037	0141068	0183099	0242003	0310149	0326071	0336010	0348040	0393009	0554173
0020044	0043019	0075134	0101038	0141069	0183301	0256004	0311039	0326077	0336014	0348042	0399009	0554174
0020045	0043026	0075135	0101039	0142006	0183303	0258104	0311043	0326080	0336021	0348043	0407001	0554175
0020047	0043028	0075136	0103067	0143037	0183304	0259108	0311044	0326081	0336030	0348044	0417102	0554176
0020048	0045046	0075137	0103069	0143040	0183306	0260105	0311045	0326082	0336031	0348046	0422107	0554325
0020050	0045123	0075138	0103070	0143049	0183310	0267106	0312034	0326084	0336033	0348047	0423104	0555001
0020051	0046026	0075140	0103138	0144007	0183311	0268110	0312036	0327040	0336035	0349011	0428103	0555105
0020052	0047027	0075141	0104020	0145035	0184107	0287106	0312038	0327041	0336043	0350015	0432125	0555109
0020053	0047033	0075142	0105047	0147063	0185031	0295103	0312040	0327042	0336044	0350018	0452116	0555110
0020061	0047035	0075143	0105048	0147065	0185032	0296102	0313018	0327045	0336045	0350019	0452124	0555111
0020062	0049158	0075144	0105049	0149001	0187038	0297003	0313019	0327046	0336049	0350027	0454103	0556187
0021046	0049160	0075147	0105050	0149040	0187039	0297004	0313021	0327047	0336051	0350028	0454104	0556210
0021047	0051066	0075152	0107020	0149041	0188118	0298103	0313106	0327049	0337006	0350033	0456002	0556225
0021069	0051068	0075155	0108005	0150019	0188119	0301024	0315043	0327050	0337009	0350036	0461117	0556227
0021163	0051083	0077044	0109046	0153031	0191058	0301048	0315046	0327051	0337010	0351017	0470108	0556229
0022074	0051086	0077051	0109047	0157041	0191060	0301061	0315047	0327052	0338001	0351018	0473108	0556231
0022078	0051087	0077054	0109053	0157044	0191061	0301063	0315060	0327055	0338032	0351022	0502110	0556232
0022079	0051088	0077057	0109054	0159045	0191062	0301064	0315061	0328014	0338034	0351023	0505019	0556233
0022080	0051089	0078109	0109055	0159047	0191063	0301065	0316037	0328020	0338035	0352012	0505020	0556234

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Name of Federal Program or Cluster (CFDA #)
Highway Planning and Construction Cluster (20.205/20.205ARRA/20.219):

Project Number

0025063	0052109	0079133	0109056	0162007	0193030	0301066	0316038	0328029	0338037	0352014	0505023	0556235
0556236	0577289	0657007	0721080	0773009	0841014	0958001	1439106	1857122	2706104	3466001	4041005	5011283
0556238	0577290	0657008	0721081	0776024	0846015	0960106	1453011	1857124	2711014	3510001	4051007	5011284
0556239	0577291	0657100	0721082	0776026	0846016	0963001	1458103	1877111	2711017	3525003	4051008	5011291
0556242	0577292	0658023	0721221	0776028	0846018	0985002	1458105	1878109	2711019	3537005	4051012	5011293
0556243	0582031	0658025	0722093	0778007	0846022	0985003	1463001	1881113	2722001	3537006	4051013	5011294
0556244	0583114	0662050	0723007	0778107	0846023	0998001	1467007	1884113	2729105	3565003	4053001	5011297
0556245	0585007	0662051	0723110	0779105	0849012	0999002	1468001	1887106	2734001	3565004	4054001	5011304
0556247	0585008	0662053	0725005	0781029	0852012	0999003	1468004	1897107	2742006	3578008	4056001	5011308
0557258	0586039	0662062	0726052	0781030	0853008	0999004	1481002	1919106	2743002	3578009	4056002	5011309
0557259	0587025	0662063	0729013	0781102	0856012	1019003	1488004	1919107	2746015	3578010	4060002	5011312
0557263	0591023	0662064	0730018	0785031	0856025	1036004	1501010	1930116	2759003	3595001	4064002	5011313
0557278	0592041	0662065	0730019	0785032	0856026	1043109	1514102	1930122	2759004	3597003	4064003	5011315
0559007	0592050	0662066	0730020	0786008	0860059	1045105	1517111	1984002	2774002	3644001	4065006	5011317
0559102	0596104	0662067	0731110	0786009	0863002	1099002	1517112	1984003	2789105	3778001	4066001	5011324
0559104	0596105	0665008	0733007	0786010	0863004	1161001	1517113	2008021	2806050	3887003	4066003	5011329
0561026	0598102	0665011	0733110	0788004	0866007	1177111	1519004	2008101	2812009	3887005	4068001	5011334
0561028	0599023	0665014	0734036	0788112	0866011	1177113	1527006	2008102	2817102	3887006	4068002	5015004
0562014	0599025	0666019	0734037	0789046	0868121	1180003	1527009	2008110	2818110	4000044	4071001	5015005
0562103	0600056	0666020	0734044	0789048	0869024	1190103	1527012	2008111	2821108	4000047	4071002	5017041
0566009	0600057	0668004	0735111	0790014	0869032	1190104	1527015	2008113	2826106	4008002	4074001	5017043
0566106	0600060	0668005	0738107	0790105	0869036	1190105	1527024	2008114	2830101	4008005	4076001	5017046
0566107	0600061	0669029	0741097	0793021	0869039	1191001	1527025	2008118	2840001	4008015	4079002	5017047
0567097	0600062	0669032	0741099	0794107	0869040	1191003	1527027	2008120	2843007	4008019	4081019	5018013
0567116	0605107	0673025	0741100	0794108	0869107	1206103	1527028	2008121	2845006	4008021	4081026	5018015
0567126	0607071	0674006	0741104	0796016	0870010	1207001	1527029	2008123	2845007	4008022	4081031	5018017
0567127	0607079	0678107	0741105	0797123	0870012	1207102	1527030	2008124	2857009	4008025	4085007	5021025
0568101	0608021	0680003	0741106	0799002	0870013	1226101	1527032	2008128	2870001	4008036	4086002	5021027
0569105	0609015	0680108	0741107	0800123	0876061	1233105	1527034	2008133	2879001	4008089	4094001	5022009
0571188	0609109	0680109	0741109	0801145	0876075	1249001	1527035	2008135	2882105	4008090	4097001	5023010
0571201	0611012	0681027	0742126	0801146	0876104	1251107	1527036	2008136	2903061	4008108	4097005	5023011
0572146	0614026	0681033	0742127	0801231	0877013	1257001	1531100	2010137	2903063	4008110	4099001	5024019
0572148	0614030	0681037	0742129	0802065	0881017	1270004	1539105	2040001	2903064	4008112	4101001	5024026
0572151	0614031	0681042	0742131	0802067	0881018	1279103	1551008	2040002	2903106	4008514	4103002	5025032
0572153	0614032	0685025	0742133	0803127	0881117	1279109	1551010	2043103	2903107	4008517	4109002	5025035
0572154	0614033	0685032	0742134	0803132	0881118	1279111	1560001	2079105	2904111	4008530	4112001	5027009
0572155	0615005	0686011	0742135	0803134	0884104	1281103	1566003	2121001	2904115	4008544	4122003	5027010
0572156	0619017	0690010	0744217	0803135	0885041	1285004	1566004	2179109	2904116	4009001	4124005	5027012
0572304	0619019	0693061	0744225	0803137	0885043	1299108	1570001	2199001	2904117	4009004	4124006	5029010
0573099	0619020	0693064	0744226	0803138	0885044	1301105	1570002	2267001	2904118	4009007	4124007	5031008
0573156	0623026	0693065	0744230	0804186	0885046	1303104	1573002	2295002	2907002	4009008	4125003	5032028
0573159	0623029	0696107	0744234	0804189	0887003	1312001	1574001	2312106	2916003	4009009	4747103	5033009
0573160	0623030	0696108	0744238	0804190	0897008	1321019	1574002	2312107	2916004	4009012	5000991	5034013
0573161	0623107	0697029	0744241	0804191	0898107	1321021	1582105	2329003	2937005	4009024	5000993	5034018
0573316	0624110	0697032	0744242	0804192	0901032	1323001	1582107	2329004	2943016	4009026	5000994	5034024
0573317	0627012	0698023	0744243	0804193	0903214	1323111	1583106	2356003	2946003	4009031	5001003	5034025
0574125	0635107	0698031	0744244	0804194	0904109	1324006	1585100	2370111	2987001	4009035	5002021	5035009
0574128	0638009	0698032	0744309	0805057	0905083	1327001	1589105	2370112	2992001	4009036	5004007	5035011
0574129	0638010	0698033	0745060	0805060	0912002	1332013	1595103	2463001	3000037	4009037	5005011	5036024
0574130	0638023	0698034	0745161	0805070	0919109	1340009	1595104	2463100	3000039	4009039	5005013	5036026
0574131	0639019	0701178	0745162	0805072	0919112	1350002	1600001	2466111	3000040	4009040	5008019	5038012
0574206	0641118	0701180	0745165	0805073	0921105	1351001	1600002	2473150	3000041	4009041	5008020	5039010
0574207	0641122	0701181	0745308	0805074	0921106	1360001	1610102	2503011	3000042	4009047	5009005	5039011
0574209	0641125	0701183	0746156	0808037	0923001	1360105	1620007	2503012	3000043	4009049	5011134	5039012
0574210	0641126	0701185	0746157	0809004	0924124	1360106	1631001	2503016	3000044	4009051	5011169	5040009
0575194	0641127	0702234	0746158	0809105	0926112	1360108	1660106	2503018	3000045	4009054	5011171	5041019
0575195	0641128	0704098	0748108	0817010	0932190	1365112	1698100	2521001	3000046	4009055	5011174	5041021
0575311	0641129	0704140	0749024	0821042	0934106	1365113	1707104	2556020	3000047	4009062	5011213	5042015
0575312	0642049	0705019	0752005	0821043	0938003	1372001	1712001	2557216	3019001	4009064	5011219	5042018
0575314	0642119	0708003	0753038	0823011	0942244	1378103	1714111	2557217	3033001	4009066	5011228	5045009
0576172	0642122	0709026	0753039	0823012	0942245	1381001	1719001	2592002	3045003	4009067	5011240	5047010
0576185	0642123	0709027	0753040	0824014	0942246	1386002	1721002	2599103	3056001	4009070	5011241	5048018
0576186	0643088	0711011	0754009	0824104	0943347	1386004	1737104	2605001	3163002	4009073	5011248	5048020
0576190	0643204	0711012	0754011	0827005	0943348	1386005	1746107	2658102	3183001	4009075	5011259	5049023
0576191	0644088	0711013	0754112	0828105	0943351	1386007	1749102	2658103	3200001	4009083	5011260	5050009

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Project Number

0577029	0645112	0713008	0757008	0830107	0943369	1388001	1756100	2688002	3246003	4009086	5011261	5050013
0577269	0646059	0714017	0757009	0831105	0943378	1395003	1780122	2692003	3260002	4009087	5011263	5050014
0577276	0646072	0714018	0759101	0832013	0943405	1405002	1785101	2692004	3261001	4009091	5011268	5051010
0577277	0646074	0716013	0761011	0836029	0943406	1405106	1805001	2697004	3461003	4009098	5011269	5051011
0577278	0646075	0717029	0765009	0836113	0943417	1415002	1807029	2697005	3462001	4009103	5011272	5052019
0577282	0646076	0717030	0769011	0840059	0943418	1419007	1818106	2701101	3462002	4009104	5011274	5052022
0577286	0649016	0720106	0770015	0840063	0943419	1419011	1822104	2703102	3463004	4009124	5011280	5052024
0577287	0654017	0721078	0770105	0840064	0946106	1423103	1848106	2703103	3463006	4012005	5011281	5052025
0577288	0654019	0721079	0773007	0841012	0949001	1425103	1857121	2705084	3465002	4012022	5011282	5052027
5053006	6000082	6000339	8003488	8003867	9003082	9003306	9003430	9003608	9003943	000S701	00D1691	00D4103
5054009	6000099	6003881	8003501	8003870	9003085	9003308	9003437	9003612	9003969	000S801	00D1701	00D4105
5056016	6000102	6108001	8003503	8003873	9003096	9003311	9003438	9003614	9003977	000S802	00D1702	00D4107
5057006	6000108	6578003	8003506	8003878	9003097	9003313	9003439	9003615	9111001	000S803	00D1705	00D4110
5058028	6000130	6757004	8003508	8003880	9003101	9003315	9003440	9003616	9122008	000S804	00D1707	00D5084
5058029	6000135	6757005	8003512	8003881	9003104	9003316	9003441	9003618	9166019	000S805	00D1710	00D5087
5058030	6000153	6761002	8003521	8003888	9003107	9003317	9003442	9003623	9251011	000S806	00D1712	00D5088
5058031	6000154	7003340	8003522	8003896	9003108	9003318	9003443	9003624	9257005	000S807	00D1718	00D5090
5061014	6000166	7003372	8003527	8003900	9003116	9003319	9003448	9003628	9481002	000S810	00D1728	00D5091
5066012	6000168	7003408	8003534	8003901	9003117	9003320	9003449	9003629	9517302	000S813	00D1746	00D5093
5066015	6000169	7003501	8003543	8003902	9003125	9003323	9003450	9003632	9826002	000S816	00D1761	00D5094
5068024	6000176	7003530	8003553	8003904	9003126	9003324	9003453	9003633	000S043	000S817	00D1767	00D5096
5068028	6000183	7003602	8003560	8003911	9003130	9003327	9003459	9003634	000S071	000S820	00D1768	00D5098
5071013	6000184	7003767	8003575	8003913	9003132	9003328	9003465	9003635	000S176	000S823	00D1776	00D6079
5074077	6000191	7003768	8003580	8003916	9003133	9003329	9003466	9003639	000S197	000S824	00D1777	00D6080
5074078	6000201	7003781	8003609	8003920	9003136	9003332	9003467	9003643	000S215	000S825	00D1779	00D6084
5074079	6000206	7003838	8003612	8003921	9003138	9003333	9003472	9003644	000S376	000S826	00D1780	00D6089
5074087	6000207	7003884	8003625	8003922	9003147	9003334	9003476	9003645	000S378	000S827	00D1781	00D6090
5076006	6000209	7003916	8003634	8003925	9003151	9003335	9003480	9003651	000S415	000S828	00D1792	00D6091
5078007	6000215	7003944	8003660	8003927	9003153	9003337	9003481	9003652	000S478	000S829	00D1793	00D6093
5080005	6000216	7003946	8003661	8003933	9003154	9003338	9003483	9003653	000S483	000S830	00D1795	00D6095
5093103	6000217	7003949	8003673	8003938	9003161	9003341	9003485	9003655	000S489	000S831	00D1797	00D6098
5093107	6000221	7003952	8003674	8003939	9003162	9003342	9003486	9003659	000S495	000S832	00D1798	00D6099
5093109	6000230	7003963	8003675	8003943	9003163	9003343	9003487	9003660	000S506	000S833	00D1802	00D6100
5093112	6000232	7003964	8003676	8003949	9003167	9003344	9003489	9003662	000S518	000S836	00D1804	00D6101
5093113	6000239	7003975	8003681	8003956	9003170	9003345	9003496	9003663	000S539	000S837	00D1808	00D6107
5093127	6000240	7003982	8003684	8003958	9003174	9003347	9003498	9003664	000S541	000S838	00D1809	00D7021
5093133	6000241	7003985	8003687	8003960	9003176	9003348	9003499	9003665	000S543	000S839	00D1810	00D7027
5093138	6000244	7706002	8003689	8003966	9003177	9003349	9003502	9003667	000S547	000S840	00D1811	00D7038
5093149	6000257	8003007	8003691	8003967	9003178	9003352	9003505	9003668	000S549	000S841	00D1812	00D7040
5093151	6000260	8003016	8003697	8003971	9003180	9003353	9003506	9003669	000S553	000S842	00D1815	00D7041
5093153	6000263	8003019	8003698	8003973	9003181	9003354	9003507	9003670	000S554	000S843	00D1818	00D7042
5094002	6000264	8003020	8003702	8003975	9003182	9003355	9003508	9003671	000S556	000S847	00D1819	00D7043
5099060	6000265	8003038	8003710	8003979	9003185	9003356	9003511	9003672	000S558	000S848	00D1822	00D7044
5099068	6000269	8003042	8003711	8003985	9003188	9003360	9003514	9003675	000S559	000S849	00D1823	00D7047
5099069	6000270	8003043	8003717	8003986	9003191	9003361	9003515	9003676	000S575	000S851	00D1824	00D7050
5099070	6000271	8003050	8003722	8003988	9003192	9003362	9003516	9003680	000S579	000S852	00D1827	00D7054
5099076	6000274	8003057	8003727	8003993	9003193	9003363	9003518	9003681	000S583	000S853	00D1829	00D7055
5099078	6000277	8003058	8003738	8003997	9003195	9003366	9003522	9003684	000S586	000S854	00D1833	00D8113
5099079	6000280	8003098	8003740	8006005	9003200	9003367	9003524	9003686	000S587	000S855	00D1834	00D8114
5099080	6000282	8003100	8003744	8012012	9003204	9003368	9003526	9003689	000S594	000S856	00D1838	00D8118
5099083	6000283	8003126	8003750	8159001	9003205	9003370	9003527	9003691	000S600	000S858	00D1839	00D8124
5099096	6000284	8003148	8003757	8173001	9003207	9003372	9003528	9003696	000S608	000S859	00D1842	00D8131
5099098	6000285	8003166	8003764	8956003	9003209	9003374	9003530	9003699	000S609	000S861	00D1847	00D8132
5099099	6000286	8003197	8003773	9003008	9003217	9003375	9003531	9003704	000S610	000S862	00D1848	00D8133
5099100	6000287	8003213	8003775	9003015	9003218	9003376	9003541	9003705	000S611	000S863	00D1853	00D8138
5099101	6000292	8003216	8003776	9003023	9003219	9003377	9003544	9003708	000S613	000S865	00D1880	00D8142
5099103	6000293	8003230	8003778	9003024	9003225	9003378	9003547	9003721	000S614	000S866	00D2088	00D8144
5099105	6000294	8003245	8003779	9003025	9003226	9003382	9003548	9003732	000S628	000S867	00D2090	00D8153
5099106	6000295	8003271	8003780	9003030	9003227	9003384	9003549	9003743	000S631	000S869	00D2094	00D8155
5146067	6000296	8003290	8003783	9003032	9003234	9003385	9003555	9003748	000S633	000S870	00D2113	00D8165
5146075	6000297	8003295	8003791	9003033	9003241	9003386	9003556	9003762	000S650	000S872	00D2132	00D8179
5146076	6000298	8003310	8003792	9003034	9003243	9003387	9003557	9003768	000S658	000S874	00D2133	00D9084
5169031	6000299	8003313	8003795	9003037	9003245	9003389	9003558	9003772	000S659	000S876	00D2137	00D9091
5169041	6000300	8003321	8003798	9003042	9003251	9003392	9003559	9003773	000S664	000S878	00D2139	00D9094
5169045	6000301	8003330	8003801	9003043	9003253	9003393	9003562	9003777	000S665	000S880	00D2140	00D9108

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Project Number

5181035	6000302	8003333	8003803	9003044	9003258	9003394	9003563	9003779	000S666	000S881	00D2142	00D9112
5181036	6000303	8003342	8003808	9003045	9003259	9003395	9003566	9003788	000S668	000S882	00D2144	00D9113
5181040	6000304	8003347	8003809	9003050	9003260	9003399	9003569	9003796	000S670	000S883	00D2145	00D9121
5181045	6000305	8003372	8003811	9003053	9003262	9003405	9003571	9003801	000S672	00D1610	00D2147	00DC053
5181047	6000306	8003382	8003812	9003056	9003267	9003406	9003574	9003807	000S673	00D1622	00D3042	00EP113
5181048	6000310	8003398	8003813	9003057	9003270	9003408	9003576	9003818	000S674	00D1632	00D3051	00HP017
5206005	6000311	8003404	8003818	9003059	9003278	9003410	9003578	9003822	000S675	00D1633	00D3052	00SP009
5227042	6000312	8003406	8003820	9003061	9003282	9003411	9003579	9003833	000S679	00D1639	00D3056	02IL023
5227046	6000313	8003407	8003823	9003065	9003287	9003412	9003583	9003838	000S682	00D1642	00D3057	06IL010
5227048	6000315	8003411	8003827	9003066	9003292	9003417	9003584	9003871	000S683	00D1651	00D3058	06IL016
5227054	6000316	8003432	8003835	9003067	9003295	9003418	9003588	9003876	000S687	00D1653	00D3059	D001641
5291014	6000324	8003437	8003836	9003068	9003297	9003420	9003591	9003879	000S689	00D1659	00D3061	D001700
5291016	6000326	8003453	8003842	9003069	9003298	9003421	9003592	9003883	000S690	00D1666	00D3062	D001708
5291017	6000327	8003471	8003851	9003071	9003299	9003422	9003593	9003903	000S692	00D1667	00D4083	D001729
5855003	6000328	8003472	8003853	9003072	9003301	9003425	9003595	9003905	000S694	00D1673	00D4085	IL05006
5857001	6000334	8003473	8003856	9003073	9003302	9003427	9003598	9003906	000S695	00D1680	00D4095	IL05007
6000060	6000336	8003474	8003857	9003080	9003304	9003428	9003603	9003908	000S696	00D1682	00D4098	IL05009
6000075	6000337	8003477	8003866	9003081	9003305	9003429	9003606	9003918	000S699	00D1683	00D4100	IL06008
IL06010	IL09026	2004004	2008021									
IL06016	IL09029	2004011	2008025									
IL07002	IL09031	2005004	2008026									
IL07005	IL09101	2006009	2008027									
IL07012	IL09103	2007006	2008028									
IL07027	IL09104	2007007	2008029									
IL08001	IL10102	2007013										
IL08002	IL10103	2007019										
IL08015	IL11036	2007022										
IL08017	ILSB802	2007033										
IL08021	ILSB804	2007035										
IL08024	ILSB805	2007036										
IL08027	ILSB806	2008006										
IL08030	ILSB808	2008008										
IL09020	2001007	2008010										
IL09023	2002007	2008013										
IL09024	2003003	2008014										
IL09025	2003014	2008015										

(Continued)

STATE OF ILLINOIS
Schedule of Award Numbers
Year ended June 30, 2012

Name of Federal Program or Cluster (CFDA #)

Clean Water State Revolving Fund (66.458/66.458ARRA):

Award Number			
2W00E77501	CS17000109	CS17000110	

Drinking Water State Revolving Fund (66.468):

Award Number			
2W00E77701-1	FS98577707-0	FS98577708-0	

State Energy Program (81.041/81.041ARRA):

Award Number			
DE-FG-07NT43162	DE-EE-0000119		

Weatherization Assistance for Low Income Persons (81.042/81.042ARRA):

Award Number			
DE-EE0000490	DE-EE0000125		

Title I, Part A Cluster (84.010/84.389ARRA):

Award Number			
S010A110013	S010A100013	S389A090013	

Special Education Cluster (84.027/84.173/84.391ARRA/84.392ARRA):

Award Number			
H027A110072	H173A110101	H173A100101	H173A110101
H027A100072			

Federal Family Education Loans (84.032G):

Award Number
None

Careers and Technical Education – Basic Grants to States (84.048):

Award Number			
V048A100013	V048A110013	V048A120013	

Vocational Rehabilitation Cluster (84.126/84.390ARRA):

Award Number			
H126A100018A	H126A110018A	H126A120018A	

Twenty-First Century Community Learning Centers (84.287):

Award Number			
S287C100013	S287C110013	S287C120013	

Improving Teacher Quality State Grants (84.367):

Award Number			
S367A110012	S367A100012		

School Improvement Grants (84.377/84.388ARRA):

Award Number			
S377A110014	S388A090014		

Education Job Funds (84.410ARRA):

Award Number
S410A100014

Aging Cluster (93.044/93.045/93.053):

Award Number			
12AAILNSIP	12AAILT3SP	12AAILT7SP	

Public Health Emergency Preparedness (93.069):

Award Number			
5U90TP516966-10	2U90TP516966-11		

Immunization Grants Program (93.268/93.712):

Award Number			
5-H23IP522568-09	5-H23IP522568-10	3-H23IP522568-07SI	

(Continued)

STATE OF ILLINOIS
Schedule of Award Numbers
Year ended June 30, 2012

Name of Federal Program or Cluster (CFDA #)

Centers for Disease Control and Prevention – Investigations and Technical Assistance (93.283):

Award Number
5U58DT000805-05

Temporary Assistance for Needy Families Cluster (93.558/93.714ARRA):

Award Number			
G1101ILTANF	Z1001ILTANF2	G1201ILTANF	Z0901ILTANF2

Child Support Enforcement (93.563):

Award Number		
0904IL4004	1004IL-4004	1104IL-4004

Low Income Home Energy Assistance Program (93.568):

Award Number			
G-1002ILLIEA	G-1002ILLIE2	G-1102ILLIEA	G-1202ILLIEA

Child Care Development Fund Cluster (93.575/93.596/93.713ARRA):

Award Number	
G1101ILCCDF	G1201ILCCDF

Child Welfare Services - State Grants (93.645):

Award Number		
G-1101IL1400	G-1001IL1400	G-0901IL1400

Foster Care - Title IV-E (93.658/93.658ARRA):

Award Number			
1201IL1401	1101IL1404	1201IL1404	1101IL1402
1101IL1401			

Adoption Assistance (93.659/93.659ARRA):

Award Number			
1201IL1405	1101IL1407	1101IL1405	1201IL1407

Social Services Block Grant (93.667)

Award Number		
G0901ILSOS2	G1101ILSOSR	G1201ILSOSR

Children's Health Insurance Program (93.767):

Award Number	
05-1005ILCPBP	05-1105IL5021

Medicaid Cluster (93.720ARRA/93.775/93.777/93.778):

Award Number			
05-1105IL5ADM	05-1205IL5MAP	05-1205ILADM	05-1105ILEXTN
05-1105IL5MAP5			

HIV Care Formula Grants (93.917):

Award Number		
2X08HA16837-03-00	6X08HA16837-02-01	6X07HA00013-21-01

Block Grants for Prevention and Treatment of Substance Abuse (93.959):

Award Number		
10B1ILSAPT	11B1ILSAPT	12B1ILSAPT

Disaster Grants Public Assistance (Presidentially Declared Disasters) (97.036):

Award Number			
IL02PA1416	1771DRILP0000001	1850DRILP00000001	1991DRILP00000001
1681DRILP00000001	1800DRILP00000001	1935DRILP00000001	1960DRILP00000001
1729DRILP00000001	1826DRILP00000001		

Homeland Security Cluster (97.067):

Award Number			
2007-GE-T7-0022	2010-SS-T0-0026	2009-SS-T9-0031	EMW2011SS00035
2008-GE-T8-0012			