REPORT DIGEST

STATE OF ILLINOIS
STATEWIDE SINGLE
AUDIT REPORT
(excluding Component Units)

(Performed in Accordance with the Single Audit Act and OMB Circular A-133)

For the One Year Ended:
June 30, 2003

Summary of Findings:

Total this audit	64
Total last audit	62
Repeated from last audit	34

Release Date:
August 26, 2004

State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

Background

- The State expended $15.1 billion from federal awards in FY 03.
- A total of 45 federal programs were classified and audited as major programs at 11 State agencies. These programs constituted approximately 93.9% of all federal spending or about $14.1 billion.
- Overall, 41 State agencies expended federal financial assistance in FY 03. Nine (9) State agencies accounted for about 97.3% of federal dollars spent.

Statewide Finding - Financial Reporting

- The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate schedule of expenditures of federal awards. As a result, the State has a *reportable condition*[1] on all federal programs.

Auditor *Disclaimer*[2] of Opinion

- The Illinois Student Assistance Commission and the U.S. Department of Education interpretation of the Federal Family Education Loan program regulations are inconsistent resulting in a disclaimer[3] of opinion by the auditors.

Significant Agency Findings Classified as a *Material Weakness*[3] Resulting in An Auditor Qualification

- The Department of Human Services has a *material weakness* for including unallowable expenditures in the reporting of costs incurred by the State as expenditures of the Temporary Assistance for Needy Families.
- The Department of Human Services has a *material weakness* for including unallowable expenditures in the reporting of costs incurred by the State as expenditures of the Title XX Social Services Block Grant program.
- The Department of Human Services has a *material weakness* for not performing re-determinations of eligibility within the time-frames prescribed by regulation for the Temporary Assistance for Needy Families, State Children's Health Insurance, and Medicaid programs.
- The Department of Children and Family Services has a *material weakness* on Foster Care, Adoption Assistance, and Temporary Assistance for Needy Families programs because of inadequacies in monitoring subrecipient activities.
- The Department of Children and Family Services has a *material weakness* on the Foster Care program due to late permanency hearings.
- The Department of Commerce and Economic Opportunity has a *material weakness* in the Low-Income Home Energy Assistance and the Community Services Block Grant programs due to inadequate documentation to substantiate payroll and indirect costs charges.
- The Department of Employment Security has a *material weakness* in the Worker's Investment Act Cluster programs for its failure to adequately monitor subrecipients filing of the OMB Circular A-133 single audit reports and follow-up activities.
- The Department on Aging has a *material weakness* for the Aging Cluster programs because of a failure to have available documentation of on-site reviews of their subrecipients.
- The Department on Aging has a *material weakness* in the Aging Cluster programs for its failure to adequately monitor one of its subrecipients filing of the OMB Circular A-133 single audit reports and follow-up activities.

Notes: Summary definitions of key terms used in the findings.

[1] *Reportable Condition*: Matters that represent a significant deficiency in the design or operation of internal control. This deficiency could adversely affect an agency's ability to initiate, record, process and report financial data.

[2] *Disclaimer*: A condition in the audit where the auditor was unable to form an opinion on compliance with the requirements of a major program.

[3] *Material weakness*: An internal control deficiency which is a reportable condition. The magnitude of the condition(s) noted raises the risk that noncompliance could occur and not be detected by employees in the normal course of performing their assigned function.

{Expenditures and Activity Measures are summarized on the next page.}

STATE OF ILLINOIS
STATEWIDE SINGLE AUDIT
For the Year Ended June 30, 2003 (in thousands)

FINANCIAL ACTIVITIES	**FY 2003**	
EXPENDITURES BY PROGRAM	**Amount**	**Percent**
Major Programs		
Medicaid Cluster	$5,160,453	34.3%
Unemployment Insurance	3,182,528	21.1%
Food Stamp Cluster	1,098,225	7.3%
Highway Planning and Construction	693,316	4.6%
Temporary Assistance for Needy Families	613,480	4.1%
Title I Grants to Local Educational Agencies	424,493	2.8%
Special Education Cluster	355,519	2.4%
Foster Care - Title IV-E	353,371	2.3%
Child Nutrition Cluster	308,706	2.0%
Child Care Cluster	184,874	1.2%
Federal Family Education Loans	179,218	1.2%
Workforce Investment Act Cluster	178,538	1.2%
Special Supplemental Nutrition Program for Women, Infants & Children	163,808	1.0%
Child Support Enforcement	112,543	0.7%
Low-Income Home Energy Assistance Program	105,195	0.7%
Capitalization Grants for Clean Water State Revolving Funds	100,306	0.7%
Improving Teacher Quality State Grants	99,386	0.7%
Social Services Block Grant	98,553	0.7%
Rehabilitation Services - Vocational Rehabilitation Grants to States	94,287	0.6%
Child and Adult Care Food Program	92,533	0.6%
Adoption Assistance	75,595	0.5%
Airport Improvement Program	75,582	0.5%
Block Grants for Prevention and Treatment of Substance Abuse	67,415	0.4%
Social Security Disability Insurance	58,370	0.4%
Vocational Education - Basic Grants to States	43,352	0.3%
State Children's Insurance Program	42,420	0.3%
Community Development Block Grants/State Program	41,229	0.3%
Aging Cluster	40,877	0.3%
Employment Services Cluster	40,129	0.3%
Food Donation	31,985	0.2%
Community Services Block Grant	30,944	0.2%
Total Major Programs	14,147,230	93.9%
Non-Major Programs	913,067	6.1%
TOTAL EXPENDITURES	$15,060,297	100.0%
Federal Agencies Providing Funding:	**Total**	**Major Program Expenditures**
U.S. Department of Health and Human Services	$7,090,568	$6,885,720
U.S. Department of Labor	3,449,561	3,401,195
U.S. Department of Agriculture	1,738,310	1,695,257
U.S. Department of Education	1,470,614	1,196,255
U.S. Department of Transportation	826,395	768,898
U.S. Environment Protection Agency	165,509	100,306
Social Security Administration	59,405	58,370
U.S. Department of Housing and Urban Development	45,166	41,229
All other federal agencies	214,769	0
	$15,060,297	$14,147,230

STATISTICAL INFORMATION	**FY 2003**
Total Number of Federal Programs in the Schedule of Expenditures of Federal Awards	345
Number of Federal Programs Audited	45
Total Number of State Agencies Spending Federal Funds	41
Number of State Agencies Audited for Single Audit Requirements	11

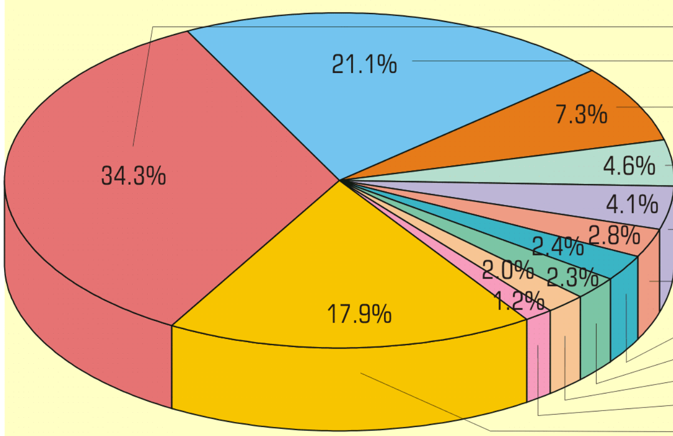
INTRODUCTION

The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY 03 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 41 State agencies expended federal financial assistance in FY 03. A separate supplemental report has been prepared by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. Consequently, the supplemental report does not include information on component units. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of $15.1 billion for the year ended June 30, 2003. Overall, the State participated in 345 different federal programs, however, 10 of these programs or program clusters accounted for approximately 82.3% of the total federal award expenditures. (See Exhibit I)

EXHIBIT I
Federal Program Award Expenditure Summary
for the year ended June 30, 2003

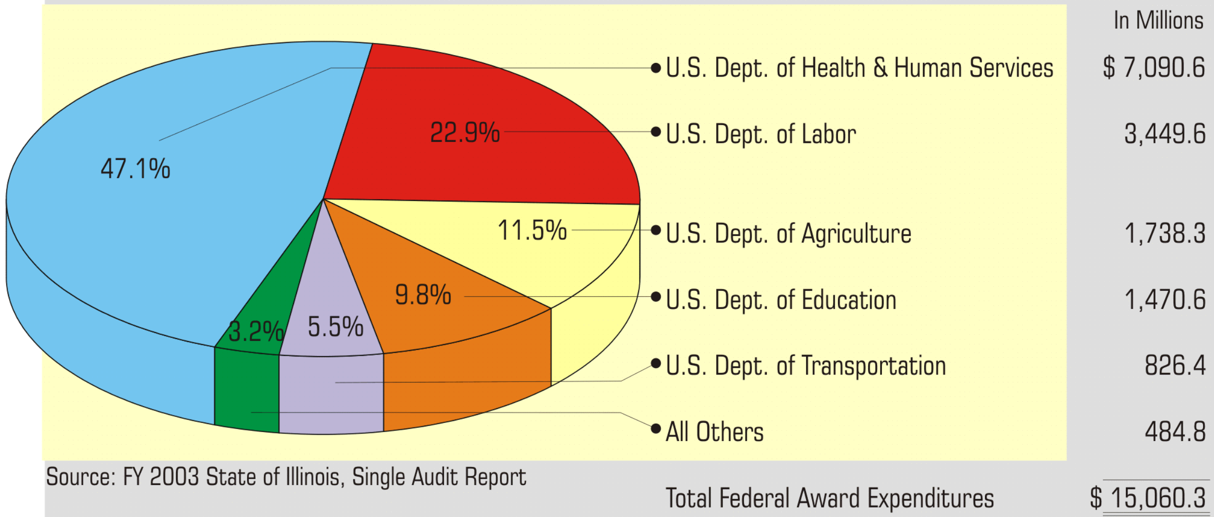


	In Millions
Medicaid Cluster	$ 5,160.5
Unemployment Insurance	3,182.5
Food Stamp Cluster	1,098.2
Highway Planning/Construction	693.3
Temporary Assistance for Needy Families	613.5
Title 1 Grants to Local Education Agencies	424.5
Special Education Cluster	355.5
Foster Care - Title IV-E	353.4
Child Nutrition Cluster	308.7
Child Care Cluster	184.9
All Others	2,685.3
Total Federal Award Expenditures	$ 15,060.3

Source: FY 2003 State of Illinois, Single Audit Report

The funding for the 345 programs was provided by 21 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY 03.

EXHIBIT II
U.S. Federal Agencies Providing Federal Funding
for the year ended June 30, 2003



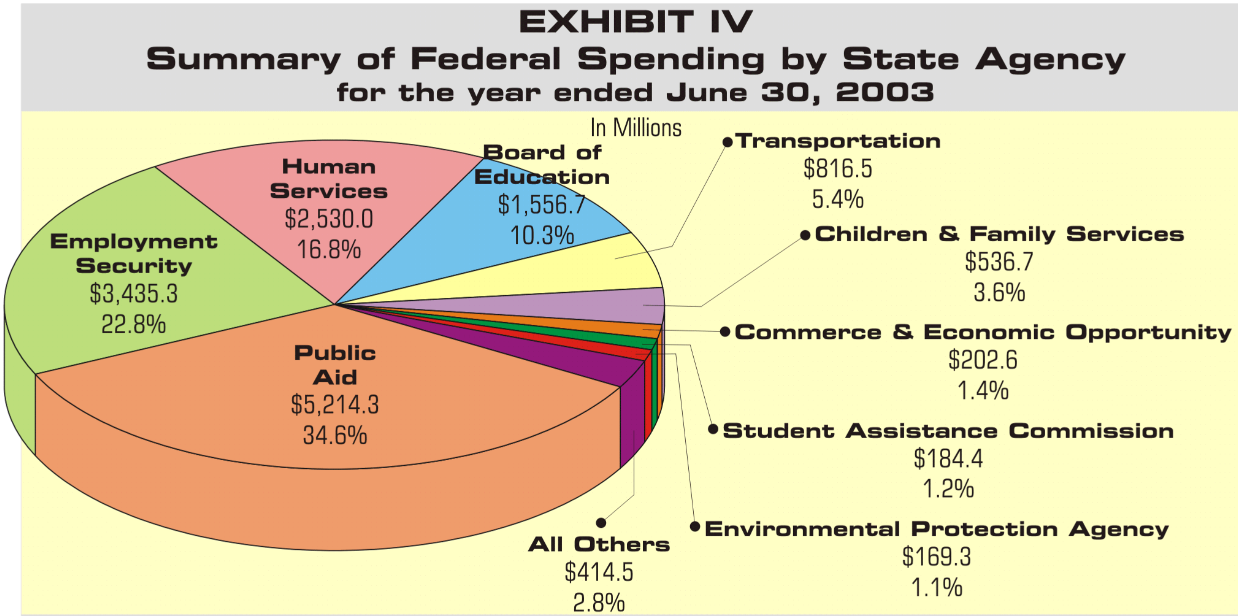
Source: FY 2003 State of Illinois, Single Audit Report

A total of 45 federal programs (or 31 programs/clusters) were identified as major programs in FY 03. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. All of the 31 major programs/clusters involved federal award expenditures exceeding $30 million. Exhibit III provides a brief summary of the number of programs classified as "major" and "non-major" and related federal award expenditures.

EXHIBIT III
Classification of Federal Programs
"Major vs. Non-Major"
and Related Federal Award Expenditures
for the year ended June 30, 2003

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs	45	$14,147.2	93.9%
Non-Major Programs	300	913.1	6.1%
Total	345	$15,060.3	100.0%

Nine State agencies accounted for approximately 97.2% of all federal dollars spent during FY 03 as depicted in Exhibit IV.



Source: FY 2003 State of Illinois, Supplemental Report of Federal Expenditures by Agency/Program/Fund.

AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

The auditors' report contained qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 24-26 of the audit.

Qualifications

The auditors qualified their report on major programs for the following noncompliance findings:

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	03-16	65-66
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	03-17	67-68
IL Department of Human Services	State Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	03-17	67-68
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	03-17	67-68
IL Department of Human Services	Social Services Block Grant	Allowable Costs/Cost Principles	03-18	69-70
IL Department of Children and Family Services	Foster Care - Title IVE	Allowable Costs/Cost Principles and Eligibility	03-33	101-102
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	03-34	103-104
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	03-34	103-104
IL Department of Children and Family Services	Foster Care - Title IVE	Subrecipient Monitoring	03-34	103-104
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	03-36	107-108
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	03-37	109-110
IL Department of Commerce and Economic Opportunity	Low-Income Home Energy Assistance Program	Allowable Costs/Cost Principles	03-56	147-148
IL Department of Commerce and Economic Opportunity	Community Services Block Grant	Allowable Costs/Cost Principles	03-56	147-148
IL Department of Employment Security	Workforce Investment Act Cluster	Subrecipient Monitoring	03-58	151-152

As identified above and described in the report's 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.

Internal Control Over Financial Reporting

We noted certain matters involving internal control over financial reporting of the Schedule of Expenditures of Federal Awards (Schedule) that were considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting of the Schedule that, in the auditors' judgement, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management. There were 14 findings reported in the single audit classified as financial reporting reportable conditions.

Internal Control Over Compliance

We noted certain matters involving internal control over compliance that were considered to be reportable conditions. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of internal control over compliance that, in the auditors' judgement, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements. Overall, 46 of the 64 findings reported in the single audit were classified as compliance reportable conditions.

Material weaknesses were also disclosed in our report. In general, a material weakness is a condition in which the design or operation of internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Overall, 19 of the 64 findings reported in the single audit were classified as both a material weakness and a reportable condition.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Exhibit V summarizes the number of report findings by State agency, identifies the number of repeat findings, and references the findings to specific pages in the report.

EXHIBIT V
Summary Schedule of Findings By Agency

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller	1	1	30-31
Human Services	14	5	32-33, 62-89
Public Aid	6	4	34-35, 90-100
Children & Family Services	4	4	36-37, 101-106
Aging	2	0	107-110
State Board of Education	8	5	38-39, 111-124
Student Assistance Commission	7	4	40-41, 125-136
Community College Board	3	0	42-43, 137-140
Transportation	4	2	44-45, 141-146
Commerce and Economic Opportunity	3	2	46-47, 147-150
Employment Security	5	2	48-49, 151-159
Environmental Protection Agency	3	2	50-51, 160-163
Corrections	2	1	52-53, 164-166
Natural Resources	1	1	54-55
Public Health	1	1	56-57
Totals	64	34	

THE FINANCIAL REPORTING PROCESS FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) IS INADEQUATE TO PERMIT TIMELY AND ACCURATE REPORTING

The financial reporting process to IOC is complex in its design and manual in nature

The State's process and source of information used to prepare the SEFA are from manual data collection forms designed and used by the Office of the Comptroller (IOC) in its preparation of the State's Basic Financial Statements. These agency prepared forms are reviewed by the IOC and subsequently, by each agency's post auditor, whose reviews often identify needed corrections and a lack of completeness in their original preparation.

During our audit of agencies administering major Federal programs we noted the State's process for collecting information to compile the SEFA is inadequate to permit timely and accurate reporting in accordance with the deadline prescribed in OMB Circular A-133 which is March 31 or within thirty days after the issuance of the basic financial statements, whichever is earlier.

Our review encompassed:

1. State Comptroller's documentation of items needing agency correction or completion on accounting forms;
2. Items noted as needing correction or completion by the agency's post auditor; and
3. The time period lapsing for each participant to interact to correct or complete accounting and financial reporting information so a SEFA can be appropriately compiled and reported.

Although the IOC made some improvements in the SEFA reporting process, problems remain in the submission and finalization of the State Comptroller forms due to their complex nature and manual process.

For example, the total days lapsing by 13 of the agencies from the State's fiscal year end (6/30) to the submission to the OAG for SEFA compilation purposes were as follows:

Finding	Agency	Total Days
03-02	Dept. of Human Services	196
03-03	Dept. of Public Aid	191
03-04	Dept. of Children and Family Services	199
03-05	IL State Board of Education	204

03-06	IL Student Assistance Commission	199
03-07	IL Community College Board	136
03-08	Dept. of Transportation	190
03-09	Dept. of Commerce and Economic Opportunity	141
03-10	Dept. of Employment Security	164
03-11	IL Environmental Protection Agency	186
03-12	Dept. of Corrections	168
03-13	Dept. of Natural Resources	127
03-14	Dept. of Public Health	164

The type of errors, discrepancies, deficiencies, omissions, and delays varied by agency and fund. Problems noted and comments by agency staffs were as follows:

- All 13 of the above agencies required correcting journal entries to accurately present amounts.
- Grant information of amounts paid to subrecipients was omitted.
- DHS' finalization process to maximize TANF spending is untimely.
- Other State agency reporting of TANF expenditures to DHS is untimely.
- Preparation of agency-level financial statements relies heavily on multiple external entities.
- Inadequate staff available to meet State Comptroller's due dates.
- Grant functions are decentralized in some agencies resulting in untimely and inaccurate information.
- Agencies' accounting system and processes are not completed until after State Comptroller's due dates.
- Interagency grant reporting activity is untimely.

Federal regulations require that a recipient of federal awards prepare appropriate financial statements, including the SEFA, and ensure that the required audits are properly performed and submitted when due. Also, the federal regulations require recipients of federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Auditor reportable condition due to inadequacies in the financial reporting process

As a result of the errors, deficiencies and omissions noted throughout the process used by the State in its financial reporting process, along with the inability to meet the required filing deadline of 03/31/03, the auditors identified the inadequacies as a reportable condition for all federal programs administered by the State. (Findings 03-01 through 03-14, pages 30-57)

We recommended the IOC implement an automated process for compiling the SEFA which will allow completion in accordance with OMB Circular A-133. Also, State agencies should review the current process with the IOC and implement changes necessary to ensure timely submission of complete and accurate forms.

The State Comptroller's Office agrees that the SEFA needs to be timely completed and accurately prepared and will continue to automate the manual forms used by agencies in the reporting process. Also, the State Comptroller's Office will be consulting with the Governor, the Office of Management and Budget, and the Department of Central Management Services and request their assistance in monitoring agency financial reporting in relation to federal awards.

All of the above agencies either stated or inferred the complexities they encounter in the current reporting process to include the IOC forms used in compiling the SEFA. And finally, most agencies indicated a commitment to work with the State Comptroller and the Office of the Auditor General to ensure enhanced reporting in both accuracy and timeliness.

INTERPRETATION DIFFERENCES RESULTS IN AUDITOR DISCLAIMER ON THE FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFELP)

Auditor Disclaimer on federal program administered by ISAC

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

ISAC's interpretation of FFELP regulations questioned by federal officials

During FY 2003, the USDE-OIG conducted an audit of the FFELP. Based on communications received from ISAC, the draft audit report indicated that there were 50 claims selected to test from a population of 21,732. Of the 50 tested (totaling $123,521), 32 claims (or 64% totaling $75,077) should have been returned to the lenders because the lender's claim packet was missing accurate collection and/or payment histories or contained evidence of due diligence violation(s). In addition, the report stated that ISAC's claims review process is not adequate and is limited.

ISAC officials contend that the regulations do not require an "audit" during the claims review process. Also, ISAC contends the period of time which should be evaluated during the claims review process is from the date of deficiency through the time the lender files the claim. Also, ISAC officials state their process conforms to industry practice and federal regulations as interpreted in the Common Manual used by all states. (Finding 03-45, pages 125-127)

Auditor disclaimer results due to difference of interpretation

As a result of the difference of interpretation by ISAC and the USED-OIG audit, the auditors' disclaimed an opinion on their audit of the FFELP.

We recommended ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of claims and make any necessary changes, if any, to conform with those requirements.

ISAC accepted the recommendation and, along with the guaranty agency industry, is currently engaged in meetings with USDE as a result of the ED-OIG draft audit report. ISAC strongly believes their current practice relating to the processing and submission of reinsurance claims, combined with their lender review process, fulfills the requirements set forth in the regulations. However, if ISAC determines their current interpretations are inadequate, current processes will be modified to comply.

UNALLOWABLE COSTS CHARGED TO THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM

Auditors question program costs of approximately $17,300,000

The Department of Human Services (IDHS) claimed expenditures under the Temporary Assistance for Needy Families (TANF) program for a state operated program that did not meet one of the four purposes of the TANF program. As a result, the auditors question $17.3 million in expenditures. DHS included approximately $17.3 million in expenditures under the TANF Program from the State's Regional Safe Schools program as qualifying claims.

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

In order to be allowable for TANF program reimbursement, expenditures must meet one of the following purposes:

(1) provide time-limited assistance to needy families with children so that children can be cared for in their own home or in a home of a relative;
(2) end dependence of needy parents on government benefits by promoting job preparation, work, and marriage:
(3) prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and
(4) encourage the formation and maintenance of two-parent families.

The State TANF Plan is submitted to and approved by the U.S. Department of Health and Human Services (USDHHS). The plan identifies those activities the State offers as part of its TANF program. Additionally, federal regulations relating to expenditures on behalf of eligible families for educational services or activities provided through the public education system do not qualify unless they are (1) provided to increase self-sufficiency, job training, and work, and (2) they are not generally available to other residents of the State without cost and without regard to their income. (Finding 03-16, pages 65-66)

Auditor qualification for unallowable TANF expenditures

As a result of DHS's including the State's Regional Safe School program as a qualifying TANF reimbursable activity, the auditors qualified their report on the TANF program.

We recommended DHS implement procedures to ensure only expenditures made for programs that are included in the State Plan and that meet one of the four purposes of TANF are claimed.

DHS officials did not agree with the finding. Their position is the Regional Safe Schools expenditure purpose is to prevent and reduce out-of wedlock pregnancies since these children are at risk of dropping out of school, becoming teen parents, and/or entering the public welfare caseload.

In an auditor's comment we noted the Regional Safe Schools program is available for all expelled students resulting from behavior problems occurring in local school districts. The purpose of TANF is not to provide funding for broad based educational programs. Further, we did not to see a direct correlation between this program and its ability to prevent or reduce out-of-wedlock pregnancies.

DHS amends State Plan subsequent to our audit

DHS amended the State Plan subsequent to our audit to include this program. However, the amendment does not clearly describe this program and is misleading in its description.

UNALLOWABLE COSTS CHARGED TO FEDERAL TITLE XX (SOCIAL SERVICES BLOCK GRANT) PROGRAM

Questioned program costs of $1,500,000

Adequate documentation did not exist to substantiate expenditures claimed by the Department of Human Services (DHS) met the earmarking requirements for the Title XX program. As a result, the auditors questioned costs of approximately $1.5 million.

DHS transferred $20 million of the Temporary assistance for Needy Families (TANF) federal program to the Title XX program which is permissible pursuant to federal regulations. TANF regulations, being more stringent than the Title XX program regulations, require usage for children or families whose income is less than 200% of the official poverty guidelines. DHS used these guidelines in spending the TANF transferred resources for the Early Intervention and Home Services programs.

Expenditures could not be directly linked to specific beneficiaries whose income did not meet the poverty level criteria

During our testwork of 60 expenditures, we noted 15 expenditures tested (totaling $1,747) related to grants made to providers of the Early Intervention program for case management. These expenditures could not be directly linked to specific beneficiaries whose income did not meet the poverty level criteria. Thus, DHS was not able to provide documentation that the individuals served met the earmarking requirement. Grants for case management claimed during FY 2003 approximated $1.5 million.

Federal regulations require the fiscal controls of the State be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (Finding 03-18, pages 69-70)

Auditor qualification for unallowable Title XX restricted expenditures

As a result of DHS's failure to provide adequate documentation to support the beneficiaries meeting the more stringent poverty level guidelines, the auditors qualified their report on the Title XX case management expenditure claims.

We recommend DHS implement procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed.

DHS officials did not agree with the finding. Their position is that their methodology results in payments to Child and Family Connections agents based on a rate that is tied to a specific child.

In an auditor’s comment we stated that DHS is improperly treating these expenditures as direct costs similar to "fee for service." The grant award is a fixed amount each quarter and DHS' approach is based on individuals that "could have been served" (including non-eligible persons) instead of those who were served. DHS' allocation methodology results in significant changes in the amount claimed per individual each month which inhibits their ability to directly link an eligible individual with the amount claimed.

FAILURE TO PERFORM RE-DETERMINATIONS OF ELIGIBILITY WITHIN PRESCRIBED TIMEFRAMES

The Department of Human Services (DHS) is not performing eligibility re-determinations in accordance with timeframes required by the respective State Plans for the Temporary Assistance for Needy Families (TANF), State Children's Health Insurance Program (SCHIP), and Medicaid programs.

Multiple subrecipient monitoring deficiencies were noted

During our test work of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility re-determinations of individuals for the three programs as follows:

TANF	2,556 of 38,234 cases	6.7%
SCHIP	51,747 of 433,144 cases	11.9%
Medicaid	31,492 of 388,170 cases	8.1%

Failure to properly perform eligibility re-determination procedures in accordance with State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs.

According to federal regulations, DHS is required to determine client eligibility in accordance with eligibility requirements defined in the State Plans for Medicaid, SCHIP, and TANF programs. The current State Plans require re-determinations of eligibility for all recipients on an annual basis. (Finding 03-17, pages 67-68)

Auditor qualification due to failure to perform eligibility re-determination timely

As a result of DHS's failure to perform timely re-determinations of recipient eligibility, the auditors qualified their opinion on the TANF, SCHIP, and Medicaid programs.

We recommended DHS review its current process for performing eligibility re-determinations and consider changes necessary to ensure all re-determinations are performed within the timeframes prescribed within the State Plans for each affected program.

DHS officials agreed with our recommendations.

INADEQUATE AND UNTIMELY MONITORING OF SUBRECIPIENTS

The Department of Children and Family Services (DCFS) is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the Temporary assistance for Needy Families, Foster Care, Adoption Assistance, and Social Services Block Grant programs.

Multiple subrecipient monitoring deficiencies were noted

In our subrecipient monitoring sample of 50 subrecipients out of a total of 108 subrecipients (totaling $61,759,797 of $455,674,000 in total subrecipient expenditures), we noted certain items of noncompliance.

Some of the conditions noted in our sample results showed DCFS:

(1) did not always receive required subrecipient audit reports timely;
(2) lacked documentation that extension of time was granted by the agency for those filed after the required 180 days;
(3) did not always review audit reports received; and
(4) had not conducted a fiscal on-site review within the last three years.

Subrecipient monitoring procedures applicable to a pass-through entity require monitoring subrecipients activities to provide reasonable assurance that the subrecipient is administering federal awards in compliance with federal requirements and that prompt corrective action is taken on any audit finding. DCFS will then have adequate information to assess any impact in the subrecipient's ability to comply with applicable federal regulations.

Auditor qualification pertaining to subrecipient monitoring

As a result of the conditions noted pertaining to subrecipient monitoring, the auditors qualified their report on three major programs: Foster Care, Adoption Assistance, and Temporary Assistance for Needy Families programs. (Finding 03-34, pages 103-104) **This finding was first reported in the Statewide Single Audit in 2000.**

We recommended DCFS implement procedures to ensure: (1) OMB Circular A-133 audit reports are received from subrecipients within 180 days as required; (2) desk reviews are performed timely, including review of reports, follow-up on subrecipient findings, implementation of Corrective Action Plans, receipt and review of applicable management letters, and documentation of such review; and (3) an evaluation of current staffing of the monitoring department to ensure resources are adequate. We also recommended DCFS consider revising its on-site monitoring policy to include a risk-based approach for selecting subrecipients for on-site visits.

DCFS officials agreed with the recommendation and stated they have implemented procedures to: (1) track receipt of required reports; (2) follow-up on reports not received within the required 180 day period; (3) screen reports to determine if the subrecipient needs to be contacted to provide missing information; (4) have a plan to increase audit staff from three to ten persons along with a manager and clerical support person; and (5) subrecipient selection will be based on both prior year's desk review and consulting DCFS program monitors to assess risk issues. (For previous agency responses, see Digest Footnote #1)

FAILURE TO ENSURE FOSTER CARE PERMANENCY HEARINGS ARE PERFORMED WITHIN REQUIRED TIME FRAMES

DCFS has been late in completing "permanency plans" for foster children

DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes. DCFS was late in preparing a "permanency plan" due to failure in conducting permanency hearings timely for the Foster Care Program.

Ineligible costs of $4,940

During the review of 50 Foster Care program files, the auditors noted permanency hearings were not performed within the required timeframe for three of the beneficiaries tested. The delay in performing the permanency hearings ranged from 35 to 365 days after the required timeframe. This delay rendered these beneficiaries ineligible until the permanency hearings were conducted. Also, DCFS does not have a process in place to ensure permanency hearings were completed within required timeframes nor do they have a list of beneficiaries where permanency hearings are not completed. As a result, DCFS claimed reimbursement for foster care maintenance payment during this period where the child was determined to be "ineligible" totaling $4,940.

Each foster child's permanency hearing is critical to the finalization of a "permanency plan". It is the permanency plan that establishes goals for placement of the child in a permanent living arrangement, which may include reunification, adoption, legal guardianship, etc. The permanency hearing serves as the judicial determination that reasonable efforts have been made by DCFS to finalize the permanency plans.

In order to obtain reimbursement for foster care maintenance costs, DCFS must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is to be in effect within 12 months from the time a child enters foster care status. Also, each foster child must have an annual renewal of the permanency plan thereafter.

Auditor qualification due to untimely permanency hearings

As a result of DCFS' failure to ensure timely permanency hearings of each child placed in foster care, the auditors qualified their report on the Foster Care program. (Finding 03-33, pages 101-102)

We recommended DCFS implement procedures to monitor each foster child's permanency hearing to ensure all hearings are held within the federally prescribed timeframes.

DCFS officials accepted the recommendation and stated they have developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of permanency hearings and reviews. Also, they will work with the court system to ensure permanency hearings meet the federal requirements.

INADEQUATE SUPPORTING DOCUMENTATION FOR PAYROLL

The Department of Commerce and Economic Opportunity (DCEO) did not have adequate supporting documentation to substantiate payroll claimed for federal reimbursement under the Low Income Home Energy Assistance Program (LIHEAP) and Community Service Block Grant (GSBG) programs for the period from July 1, 2002 through March 31, 2003.

DCEO did not follow cost principles and standards required for reimbursement

During the review of payroll and fringe benefit costs charged to federal programs during the FY 2002 audit, the auditors noted that employee effort certifications on file did not indicate on which specific federal program(s) the employee had worked. Additionally, the auditors noted that although an employee had worked on activities of both LIHEAP and CSBG, their time was allocated 100% to only one of the programs instead of proportionately based on time spent. Since the indirect costs charged are based on each program's direct payroll expenditures, the indirect costs charged to LIHEAP and CSBG are not adequately documented.

Upon identification of this noncompliance in April, 2003, DCEO began obtaining the required effort certifications or timesheets to allocate its administrative costs.

Auditors question costs totaling $1,853,884

Failure to allocate the costs based on a proportionate amount of hours worked during the period July 1, 2002 through March 31, 2003, resulted in questioned costs of $1,853,884.

Established federal cost principles, standards and criteria for determining allowable costs require DCEO to meet certain criteria prior to obtaining expenditure reimbursement. This documentation would include DCEO to obtain employee certification of how much time the employee spent on each federal program. This certification must be obtained at least every 6 months.

Auditor qualification due to failure to have proper documentation to support amounts charged

As a result of DCEO failure to maintain adequate documentation in support of the amount charged, the auditors qualified their report on the LIHEAP and CSBG programs. (Finding 03-56, pages 147-148)

We recommended DCEO obtain the effort certifications or personal activity reports for all payroll and fringe benefit expenditures charged to federal programs.

DCEO officials accepted the recommendation and noted they implemented corrective action immediately after the non compliance was identified.

INADEQUATE MONITORING OF SUBRECIPIENTS RECEIVING FEDERAL AWARDS

The Illinois Department of Employment Security (IDES) does not have an adequate process to follow up on delinquent reports from subrecipients and to ensure management decisions on program findings are issued within six months. Additionally, IDES is not adequately documenting the procedures performed for on-site fiscal and programmatic monitoring. Specifically, IDES is not adequately monitoring subrecipients receiving federal awards with respect to the Workforce Investment Act (WIA) program cluster.

Multiple subrecipient monitoring deficiencies were noted

During the year ended June 30, 2003, IDES passed through $168,137,000 to 26 subrecipients of the WIA programs. We reviewed all 26 subrecipients and noted the following noncompliance with OMB Circular A-133 subrecipient monitoring:

(1) two reports were received late;
(2) eleven reports had not been received within the 270 day

required filing period. These reports ranged between 30 to 820 days late;

(3) IDES had not issued a management decision on the audit findings within the 6 months for one subrecipient; and,
(4) documentation was either missing or lacked completion in three subrecipient files.

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 agreements.

According to federal regulations, 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 and regulations, take prompt corrective action on any audit findings, and to evaluate the impact of the subrecipient activities on the IDES's ability to comply with federal regulations. (Finding 03-58, pages 151-152)

Auditor qualification pertaining to subrecipient monitoring

As a result of IDES's failure to adequately monitor subrecipients, the auditors qualified their report on the Workforce Investment Act Cluster.

We recommended IDES establish subrecipient monitoring procedures to:

(1) monitor and follow-up on submission of delinquent OMB Circular A-133 reports;
(2) document and retain follow-up activities and correspondence in subrecipient file;
(3) issue management decisions within the required six month period; and
(4) implement review procedures to ensure on-site reviews are documented using the monitoring checklists

IDES officials agreed with our recommendation and indicated that a copy of the finding has been forwarded to the Department of Commerce and Economic Opportunity who currently is responsible for the WIA program beginning July 1, 2003.

INADEQUATE MONITORING OF SUBRECIPIENTS RECEIVING FEDERAL AWARDS

The Department on Aging (Aging) is not adequately monitoring subrecipients receiving federal awards with respect to the Aging Cluster programs.

Aging passes through federal funding to thirteen area agencies. Each of these Area Agencies works with Aging to develop an annual Area Plan detailing how the funds will be used to meet the goals and objectives of the Aging Cluster programs. Aging has established policies and procedures for monitoring the Area Agencies to include: (1) performing on-site reviews (evaluations), (2) reviewing periodic financial, programmatic, and single audit reports, and (3) providing training and guidance to Area Agencies, as necessary.

On-site monitoring procedures had not been performed since 1998

During our testwork of seven Area Agencies of the Aging Cluster having total expenditures of $29,866,000, we noted on-site monitoring procedures had not been performed since 1998. Total awards passed through to all recipients of the Aging cluster were $38,854,000 during the year ended June 30, 2003.

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 annual area plans.

According to federal regulations, 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 and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. (Finding 03-36, pages 107-108)

Auditor qualification pertaining to Aging's lack of on-site monitoring

As a result of Aging's failure to adequately monitor subrecipients, the auditors qualified their report on the Aging Cluster.

We recommended Aging perform periodic on-site reviews which include financial and programmatic records, observation of operations and/or processes to ensure their subrecipients are administering the federal program in accordance with the applicable laws, regulations, and the annual Area Agency Plan.

Aging officials did not agree with the finding and stated they were puzzled as to why the subrecipients OMB Circular A-133 audit did not meet the requirement of the monitoring activities achieved by a pass-through agency's on-site review and evaluation process.

In the auditor's comment we noted Aging's performance of on-site procedures does not duplicate the effort of the Area Agencies OMB Circular A-133 audit. Also, an Area Agency's Aging Cluster program may not even be selected for audit based on selection criteria applicable to the OMB Circular A-133 audits. Finally, on-site monitoring procedures typically cover program requirements in more detail than the single audit procedures and are included in Aging's policies and procedures for monitoring its subrecipients.

FAILURE TO REVIEW OMB CIRCULAR A-133 AUDIT REPORTS

The Department on Aging (Aging) failed to review the OMB Circular A-133 Report received from one of its subrecipients.

Aging passes through federal funding to thirteen area agencies. Each of these Area Agencies is required to submit an audit report in accordance with OMB Circular A-133. Aging has developed a desk review checklist that is used to assist Aging personnel in evaluating whether the single audit report meets the requirements of OMB Circular A-133 and in evaluating findings reported. Additionally, the desk review process includes a reconciliation of expenditures reported in the schedule of expenditures of federal awards to the annual grant close out report submitted by each subrecipient and to Aging records.

Lack of on-site reviews of subrecipients

During our testwork of seven Area Agencies of the Aging Cluster having total expenditures of $29,866,000, we noted Aging did not perform a desk review of the OMB Circular A-133 report for its largest subrecipient. Although Aging had received the audit report within the required timeframe, the report had not been reviewed to: (1) ensure the audit was properly performed, (2) identify any findings that could have impacted the Aging Cluster, and (3) reconcile federal expenditures reported to Aging records.

Total awards passed through to all recipients of the Aging Cluster were $38,854,000 during the year ended June 30, 2003.

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.

According to federal regulations, Aging is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. (Finding 03-37, pages 109-110)

Auditor qualification pertaining to Aging's lack of on-site monitoring

As a result of Aging's failure to adequately monitor subrecipients by not reviewing the OMB Circular A-133 audit report, the auditors qualified their report on the Aging Cluster.

We recommended Aging review its procedures for performing desk reviews of OMB Circular A-133 reports to ensure desk reviews are performed and documented in a timely manner for all subrecipients.

Aging officials agreed with the recommendation and stated they would be reviewing their procedures.

OTHER FINDINGS

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2004.

AUDITORS' OPINION

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2003 is presented fairly in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:SES:pp

SPECIAL ASSISTANT AUDITORS

KPMG LLP were our special assistant auditors for this audit.

DIGEST FOOTNOTES

Previous responses by Department of Children and Family Services

#1 Inadequate and Untimely Monitoring of Subrecipients

2002: Recommendation accepted. The Department has developed and implemented a procedure to notify subrecipients of audit requirements, track the receipt of reports and follow-up on all audits not received within 180 days of year end. A risk-based approach has been implemented to prioritize report and on-site reviews.

2001: Recommendation accepted. Staff is reviewing current procedures and practices to strengthen its monitoring function.

2000: Recommendation accepted. The Department is looking into this issue to alleviate the current backlog of desk reviews, track the due dates and receipt of reports.