

**STATE OF ILLINOIS**

Single Audit Report

For the Year Ended June 30, 2004

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  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133

# 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, 2004 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, 2004 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 contains scope limitations and qualifications for the following programs:

**Disclaimer:**

Unemployment Insurance

**Adverse:**

Reading First State Grants  
Federal Family Education Loans

**Qualifications (Scope Limitation):**

Center for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants  
Employment Services Cluster

**Qualifications (Noncompliance):**

Temporary Assistance for Needy Families  
Medicaid Cluster  
State Children's Insurance Program  
Social Services Block Grant  
Foster Care – Title IV-E  
Adoption Assistance  
Aging Cluster  
HIV Care Formula Grants  
Center for Disease Control and Prevention – Investigations and Technical Assistance  
Workforce Investment Act Cluster  
Trade Adjustment Assistance – Workers

**Summary of Audit Findings**

|  | <u>This audit</u> | <u>Prior audit</u> |
|--|-------------------|--------------------|
| Number of audit findings:                  |                   |                    |
| This audit                                 | 71                | 64                 |
| Repeated audit findings                    | 45                | 34                 |
| Prior findings implemented or not repeated | 19                | 28                 |



**KPMG LLP**  
303 East Wacker Drive  
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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, 2004. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes 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*.

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, 2004, in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2005 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 16, 2005

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster  | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Agriculture</u></b>                                     |                   |                                  |   |
| Plant and Animal Disease, Pest Control, and Animal Care                          | 10.025            | \$ 1,178                         | —   |
| Conservation Reserve Program   | 10.069            | 433                              | —   |
| Wetlands Reserve Program   | 10.072            | 193                              | —   |
| Market News  | 10.153            | 4                                | —   |
| Market Protection and Promotion  | 10.163            | 17                               | —   |
| Cooperative Agreements with States for Intrastate Meat<br>and Poultry Inspection | 10.475            | 4,039                            | —   |
| Meat, Poultry, and Egg Products Inspection                                       | 10.477            | 13                               | —   |
| Food Donation  | 10.550 *          | 36,803                           | 36,784  |
| Food Stamp Cluster:  |                   |                                  |   |
| Food Stamps  | 10.551 *          | \$ 1,169,118                     | —   |
| State Administrative Matching Grants for Food<br>Stamp Program                   | 10.561 *          | <u>86,004</u>                    | 11,246  |
| Total Food Stamp Cluster   |                   | 1,255,122                        |   |
| Child Nutrition Cluster:   |                   |                                  |   |
| School Breakfast Program   | 10.553 *          | 45,656                           | 44,717  |
| National School Lunch Program  | 10.555 *          | 265,139                          | 263,463   |
| Special Milk Program for Children  | 10.556 *          | 2,600                            | 2,596   |
| Summer Food Service Program for Children   | 10.559 *          | <u>11,482</u>                    | 9,433   |
| Total Child Nutrition Cluster  |                   | 324,877                          |   |
| Special Supplemental Nutrition Program for Women,<br>Infants, and Children       | 10.557 *          | 174,100                          | 168,224   |
| Child and Adult Care Food Program  | 10.558 *          | 88,477                           | 86,756  |
| State Administrative Expenses for Child Nutrition                                | 10.560            | 4,700                            | 367   |
| Commodity Supplemental Food Program  | 10.565            | 6,329                            | 6,185   |
| Emergency Food Assistance Cluster:   |                   |                                  |   |
| Emergency Food Assistance Program (Administrative<br>Costs)                      | 10.568            | 2,557                            | 2,200   |
| Emergency Food Assistance Program (Food<br>Commodities)                          | 10.569            | <u>12,403</u>                    | 12,371  |
| Total Emergency Food Assistance Cluster  |                   | 14,960                           |   |
| WIC Farmers' Market Nutrition Program (FMNP)                                     | 10.572            | 200                              | 200   |
| Team Nutrition Grants  | 10.574            | 158                              | 158   |
| Senior Farmers Market Nutrition Program  | 10.576            | 777                              | 777   |
| Cooperative Forestry Assistance  | 10.664            | 2,111                            | 302   |
| Schools and Roads-Grants to States   | 10.665            | 291                              | 291   |
| Wildlife Habitat Incentive Program   | 10.914            | 80                               | —   |
| Agriculture Statistics   | 10.XXB            | 41                               | —   |
| National Organic Certification   | 10.XXC            | <u>40</u>                        | —   |
| <b>Total U.S. Department of Agriculture</b>                                      |                   | <u>1,914,943</u>                 |   |
| <b><u>U.S. Department of Commerce</u></b>  |                   |                                  |   |
| Interjurisdictional Fisheries Act of 1986  | 11.407            | 12                               | —   |
| Coastal Zone Management Administration Awards                                    | 11.419            | 991                              | —   |
| Technology Opportunities Program   | 11.552            | <u>132</u>                       | 27  |
| <b>Total U.S. Department of Commerce</b>   |                   | <u>1,135</u>                     |   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster  | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Defense</u></b>   |                   |                                  |   |
| Procurement Technical Assistance For Business Firms                                  | 12.002            | 381                              | 194   |
| Payments to States in Lieu of Real Estate Taxes                                      | 12.112            | 518                              | 518   |
| State Memorandum of Agreement Program for the<br>Reimbursement of Technical Services | 12.113            | 877                              | —   |
| Military Construction, National Guard  | 12.400            | 9,112                            | —   |
| National Guard Military Operations and Maintenance (O&M)                             | 12.401            | 9,489                            | —   |
| National Guard Civilian Youth Opportunities  | 12.404            | 4,945                            | —   |
| <b>Total U.S. Department of Defense</b>  |                   | <u>25,322</u>                    |   |
| <b><u>U.S. Department of Housing and Urban</u></b>                                   |                   |                                  |   |
| Community Development Block Grants/State's Program                                   | 14.228 *          | 43,665                           | 43,079  |
| Emergency Shelter Grants Program   | 14.231            | 3,345                            | 2,356   |
| Housing Opportunities for Persons with AIDS  | 14.241            | 1,041                            | 731   |
| Lower Income Housing Assistance Program-Section 8<br>Moderate Rehabilitation         | 14.856            | 836                              | 708   |
| Lead-Based Paint Hazard Control in Privately-Owned Housing                           | 14.900            | 1,301                            | 874   |
| <b>Total U.S. Department of Housing and<br/>and Urban Development</b>                |                   | <u>50,188</u>                    |   |
| <b><u>U.S. Department of Interior</u></b>  |                   |                                  |   |
| Regulation of Surface Coal Mining and Surface Effects of<br>Underground Coal Mining  | 15.250            | 2,248                            | —   |
| Abandoned Mine Land Reclamation (AMLR) Program                                       | 15.252            | 4,754                            | 252   |
| Fish and Wildlife Cluster:   |                   |                                  |   |
| Sport Fish Restoration   | 15.605            | 5,063                            | 1,362   |
| Wildlife Restoration   | 15.611            | 5,277                            | 1,384   |
| Total Fish and Wildlife Cluster  |                   | 10,340                           |   |
| Fish and Wildlife Management Assistance  | 15.608            | 124                              | —   |
| Cooperative Endangered Species Conservation Fund                                     | 15.615            | 157                              | —   |
| Clean Vessel Act   | 15.616            | 16                               | —   |
| Sportfishing and Boating Safety Act  | 15.622            | 145                              | —   |
| Wildlife Conservation & Restoration  | 15.625            | 459                              | —   |
| State Wildlife Grants  | 15.634            | 255                              | —   |
| Historic Preservation Fund Grants-In-Aid   | 15.904            | 771                              | 76  |
| National Historic Landmark   | 15.912            | 29                               | —   |
| Outdoor Recreation-Acquisition, Development and Planning                             | 15.916            | 242                              | 242   |
| Lewis and Clark Visitors Center  | 15.XXA            | 3                                | —   |
| Lincoln Library, Museum and Interpretive Center                                      | 15.XXB            | 2,948                            | —   |
| Crab Orchard Agreement   | 15.XXC            | 15                               | —   |
| Lincoln Museum   | 15.XXD            | 7,472                            | —   |
| <b>Total U.S. Department of Interior</b>   |                   | <u>29,978</u>                    |   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster                                | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Justice</u></b>                         |                   |                                  |   |
| Education and Enforcement of the Antidiscrimination              |                   |                                  |   |
| Provision of the Immigration and Nationality Act                 | 16.110            | 31                               | —   |
| Sex Offender Management Discretionary Grant                      | 16.203            | 59                               | —   |
| Juvenile Accountability Incentive Block Grants                   | 16.523            | 4,587                            | 4,433   |
| Juvenile Justice and Delinquency Prevention-Allocation to States | 16.540            | 4,043                            | 3,738   |
| Part D - Research, Evaluation, Technical Assistance and Training | 16.542            | 4                                | —   |
| Missing Children's Assistance                                    | 16.543            | 60                               | —   |
| Gang-Free Schools and Communities-Community-Based Gang           |                   |                                  |   |
| Intervention   | 16.544            | 32                               | —   |
| Title V-Delinquency Prevention Program                           | 16.548            | 1,240                            | 1,216   |
| Part E-State Challenge Activities                                | 16.549            | 463                              | 462   |
| National Criminal History Improvement Program (NCHIP)            | 16.554            | (916)                            | —   |
| National Institute of Justice Research, Evaluation, and          |                   |                                  |   |
| Development Project Grants                                       | 16.560            | 293                              | —   |
| National Institute of Justice Visiting Fellowships               | 16.561            | (1)                              | —   |
| Crime Laboratory Improvement-Combined Offender DNA               |                   |                                  |   |
| Index System Backlog Reduction                                   | 16.564            | 1,645                            | —   |
| Crime Victim Assistance  | 16.575            | 17,676                           | 15,639  |
| Crime Victim Compensation  | 16.576            | 10,163                           | —   |
| Byrne Formula Grant Program                                      | 16.579            | 15,632                           | 10,663  |
| Edward Byrne Memorial State and Local Law Enforcement            |                   |                                  |   |
| Assistance Discretionary Grants Program                          | 16.580            | 464                              | 10  |
| Crime Victim Assistance/Discretionary Grants                     | 16.582            | 14                               | —   |
| Violent Offender Incarceration and Truth in Sentencing           |                   |                                  |   |
| Incentive  | 16.586            | (789)                            | —   |
| Violence Against Women Formula Grants                            | 16.588            | 4,259                            | 2,913   |
| Rural Domestic Violence and Child Victimization                  |                   |                                  |   |
| Enforcement Grant Program  | 16.589            | 257                              | 240   |
| Local Law Enforcement Block Grants Program                       | 16.592            | 971                              | 954   |
| Residential Substance Abuse Treatment for State Prisoners        | 16.593            | 2,953                            | —   |
| State Criminal Alien Assistance Program                          | 16.606            | 3,925                            | —   |
| Bulletproof Vest Partnership Program                             | 16.607            | 1                                | —   |
| Community Prosecution and Project Safe Neighborhoods             | 16.609            | 96                               | 65  |
| Public Safety Partnership and Community Policing Grants          | 16.710            | 190                              | —   |
| Police Corps   | 16.712            | 1,190                            | 935   |
| Enforcing Underage Drinking Laws Program                         | 16.727            | 352                              | 333   |
| National Incident Based Reporting System                         | 16.733            | 28                               | —   |
| Equitable Sharing of Federal Forfeitures                         | 16.XXX            | 755                              | —   |
| <b>Total U.S. Department of Justice</b>                          |                   | <b>69,677</b>                    |   |



**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster   | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|---|-------------------|----------------------------------|---|
|   |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Labor</u></b>  |                   |                                  |   |
| Labor Force Statistics  | 17.002            | 3,028                            | —   |
| Compensation and Working Conditions   | 17.005            | 144                              | —   |
| Labor Certification for Alien Workers   | 17.203            | 788                              | —   |
| Employment Services Cluster:  |                   |                                  |   |
| Employment Service  | 17.207 *          | 34,828                           | 148   |
| Disabled Veterans' Outreach Program (DVOP)  | 17.801 *          | 3,507                            | —   |
| Local Veterans' Employment Representative Program                                       | 17.804 *          | 3,050                            | —   |
| Total Employment Services Cluster   |                   | 41,385                           |   |
| Unemployment Insurance  | 17.225 *          | 2,800,844                        | —   |
| Senior Community Service Employment Program   | 17.235            | 3,206                            | 3,026   |
| Trade Adjustment Assistance-Workers   | 17.245 *          | 38,344                           | 4,261   |
| Welfare-to-Work Grants to States and Localities   | 17.253            | 3,658                            | 2,611   |
| Workforce Investment Act Cluster:   |                   |                                  |   |
| Workforce Investment Act  | 17.255 *          | 13                               | —   |
| WIA Adult Program   | 17.258 *          | 46,141                           | 41,521  |
| WIA Youth Activities  | 17.259 *          | 50,559                           | 46,617  |
| WIA Dislocated Workers  | 17.260 *          | 90,342                           | 85,256  |
| Total Workforce Investment Act Cluster  |                   | 187,055                          |   |
| Employment and Training Administration Pilots,<br>Demonstrations, and Research Projects | 17.261            | 299                              | —   |
| Employment and Training Administration Evaluations                                      | 17.262            | 27                               | 27  |
| Youth Opportunity Grants  | 17.263            | 1,046                            | 636   |
| Work Incentives Grant   | 17.266            | 980                              | 980   |
| Occupational Safety and Health-Susan Harwood Training Grants                            | 17.502            | 33                               | —   |
| Consultation Agreements   | 17.504            | 1,804                            | —   |
| Mine Health and Safety Grants   | 17.600            | 188                              | —   |
| <b>Total U.S. Department of Labor</b>   |                   | <b>3,082,829</b>                 |   |
| <b><u>U.S. Department of Transportation</u></b>   |                   |                                  |   |
| Airport Improvement Program   | 20.106 *          | 98,781                           | 40,731  |
| Highway Planning and Construction   | 20.205 *          | 856,798                          | 71,223  |
| Highway Training and Education  | 20.215            | 396                              | —   |
| Motor Carrier Safety  | 20.217            | 188                              | —   |
| National Motor Carrier Safety   | 20.218            | 4,322                            | —   |
| Recreational Trails Program   | 20.219            | 500                              | —   |
| Railroad Safety   | 20.301            | 497                              | 497   |
| High Speed Ground Transportation-Next Generation High<br>Speed Rail Program             | 20.312            | 6,146                            | —   |
| Federal Transit Cluster:  |                   |                                  |   |
| Federal Transit-Capital Investment Grants   | 20.500            | 8,685                            | 7,663   |
| Federal Transit-Formula Grants  | 20.507            | 315                              | —   |
| Total Federal Transit Cluster   |                   | 9,000                            |   |
| Federal Transit-Metropolitan Planning Grants  | 20.505            | 2,644                            | —   |
| Formula Grants for Other Than Urbanized Areas   | 20.509            | 6,780                            | 5,631   |
| Capital Assistance Program for Elderly Persons and Persons<br>with Disabilities         | 20.513            | 3,503                            | —   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster   | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|---|-------------------|----------------------------------|---|
|   |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| State Planning and Research   | 20.515            | 905                              | 416   |
| Highway Safety Cluster:   |                   |                                  |   |
| State and Community Highway Safety  | 20.600            | 6,172                            | 3,233   |
| Alcohol Traffic Safety and Drunk Driving Prevention<br>Incentive                        | 20.601            | 2,157                            | 1,047   |
| Occupant Protection   | 20.602            | 957                              | 670   |
| Federal Highway Safety Data Improvements Incentive<br>Grants                            | 20.603            | 511                              | —   |
| Safety Incentive Grants for Use of Seatbelts  | 20.604            | 1,188                            | 1,080   |
| Safety Incentives to Prevent Operation of Motor<br>Vehicles by Intoxicated Persons      | 20.605            | 3,382                            | 3,085   |
| Total Highway Safety Cluster  |                   | 14,367                           |   |
| Pipeline Safety   | 20.700            | 440                              | —   |
| Interagency Hazardous Materials Public Sector Training<br>and Planning Grants           | 20.703            | 134                              | 120   |
| <b>Total U.S. Department of Transportation</b>  |                   | <b>1,005,401</b>                 |   |
| <b><u>U.S. Department of the Treasury</u></b>   |                   |                                  |   |
| Jobs & Growth Tax Relief Reconciliation Act   | 21.XXX *          | 422,321                          | —   |
| <b>Total U.S. Department of the Treasury</b>  |                   | <b>422,321</b>                   |   |
| <b><u>Equal Employment Opportunity Commission</u></b>                                   |                   |                                  |   |
| Employment Discrimination-State and Local Fair<br>Employment Practices Agency Contracts | 30.002            | 1,427                            | —   |
| <b>Total Equal Employment Opportunity<br/>    Commission</b>                            |                   | <b>1,427</b>                     |   |
| <b><u>General Services Administration</u></b>   |                   |                                  |   |
| Election Reform Payments  | 39.011            | 11,327                           | 10,665  |
| <b>Total General Services Administration</b>  |                   | <b>11,327</b>                    |   |
| <b><u>National Endowment for the Arts</u></b>   |                   |                                  |   |
| Promotion of the Arts-Partnership Agreements  | 45.025            | 640                              | 640   |
| Promotion of the Humanities-Public Programs   | 45.164            | 34                               | —   |
| State Library Program   | 45.310            | 5,792                            | 3,888   |
| National Leadership Grants  | 45.312            | 345                              | 299   |
| <b>Total National Endowment for the Arts</b>  |                   | <b>6,811</b>                     |   |
| <b><u>U.S. Small Business Administration</u></b>  |                   |                                  |   |
| Small Business Development Center   | 59.037            | 3,445                            | 1,682   |
| <b>Total U.S. Small Business Administration</b>   |                   | <b>3,445</b>                     |   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster  | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Veteran's Affairs</u></b>   |                   |                                  |   |
| Veterans State Domiciliary Care  | 64.014            | 479                              | —   |
| Veterans State Nursing Home Care   | 64.015            | 18,556                           | —   |
| All-Volunteer Force Educational Assistance   | 64.124            | 659                              | —   |
| <b>Total U.S. Department of Veteran's Affairs</b>  |                   | <b>19,694</b>                    |   |
| <b><u>U.S. Environmental Protection Agency</u></b>   |                   |                                  |   |
| State Indoor Radon Grants  | 66.032            | (3)                              | —   |
| Surveys Studies, Investigations Demonstrations and Special<br>Purpose Activities Relating to the Clean Air Act | 66.034            | 808                              | —   |
| Water Pollution Control State and Interstate Program Support   | 66.419            | 324                              | —   |
| State Underground Water Source Protection  | 66.433            | 278                              | —   |
| Water Quality Management Planning  | 66.454            | 528                              | —   |
| Capitalization Grants for Clean Water State Revolving Funds  | 66.458 *          | 76,609                           | 76,609  |
| Nonpoint Source Implementation Grants  | 66.460            | 7,867                            | —   |
| Wetland Program Grants   | 66.461            | 120                              | —   |
| Water Quality Cooperative Agreements   | 66.463            | 697                              | —   |
| Wastewater Operator Training Grant Program<br>(Technical Assistance)   | 66.467            | 49                               | —   |
| Capitalization Grants for Drinking Water State<br>Revolving Funds  | 66.468 *          | 36,266                           | 35,483  |
| State Grants to Reimburse Operators of Small Water<br>Systems for Training and Certification Costs             | 66.471            | 315                              | —   |
| Beach Monitoring and Notification Program<br>Implementation Grants   | 66.472            | 154                              | 101   |
| Water Protection Grants to the States  | 66.474            | 82                               | —   |
| Environmental Protection-Consolidated Research   | 66.500            | 254                              | —   |
| Performance Partnership Grants   | 66.605            | 17,967                           | —   |
| Surveys, Studies, Investigations and Special Purpose Grants  | 66.606            | 896                              | —   |
| Environmental Information Exchange Network<br>Grant Program  | 66.608            | 97                               | —   |
| Consolidated Pesticide Enforcement Cooperative Agreements  | 66.700            | 617                              | —   |
| Toxic Substances Compliance Monitoring Cooperative<br>Agreements   | 66.701            | 19                               | —   |
| TSCA Title IV State Lead Grants Certification of<br>Lead-Based Paint<br>Professionals                          | 66.707            | 368                              | —   |
| Pollution Prevention Grants Program  | 66.708            | 134                              | —   |
| Hazardous Waste Management State Program Support   | 66.801            | 74                               | —   |
| Superfund State, Political Subdivision, and Indian Tribe<br>Site-Specific<br>Cooperative Agreements            | 66.802            | 3,624                            | —   |
| State and Tribal Underground Storage Tanks Program   | 66.804            | 42                               | —   |
| Leaking Underground Storage Tank Trust Fund Program  | 66.805            | 1,429                            | —   |
| Chemical Emergency Preparedness and Prevention<br>(CEPP) Technical<br>Assistance Grants Program                | 66.810            | 1                                | —   |
| State and Tribal Response Program Grants   | 66.817            | 999                              | —   |
| <b>Total U.S. Environmental Protection Agency</b>  |                   | <b>150,615</b>                   |   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster  | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Energy</u></b>  |                   |                                  |   |
| State Energy Program   | 81.041            | 1,673                            | 635   |
| Weatherization Assistance for Low-Income Persons   | 81.042            | 14,095                           | 13,354  |
| Regional Biomass Energy Programs   | 81.079            | 35                               | 35  |
| National Industrial Competitiveness through Energy,<br>Environment, and Economics  | 81.105            | 501                              | 500   |
| Energy Efficiency and Renewable Energy Information<br>Dissemination, Outreach, Training and Technical<br>Analysis/Assistance | 81.117            | 65                               | 65  |
| State Energy Program Special Projects  | 81.119            | 412                              | 412   |
| <b>Total U.S. Department of Energy</b>   |                   | <u>16,781</u>                    |   |
| <b><u>U.S. Department of Education</u></b>   |                   |                                  |   |
| Adult Education-State Grant Program  | 84.002            | 22,638                           | 19,936  |
| Title I Grants to Local Educational Agencies   | 84.010 *          | 480,429                          | 476,997   |
| Migrant Education-State Grant Program  | 84.011            | 1,666                            | 1,666   |
| Title I Program for Neglected and Delinquent Children  | 84.013            | 3,062                            | —   |
| Special Education Cluster:   |                   |                                  |   |
| Special Education-Grants to States   | 84.027 *          | 390,923                          | 380,610   |
| Special Education-Preschool Grants   | 84.173 *          | <u>19,124</u>                    | 16,904  |
| Total Special Education Cluster  |                   | 410,047                          |   |
| Federal Family Education Loans   | 84.032 *          | 170,585                          | —   |
| Vocational Education-Basic Grants to States  | 84.048 *          | 46,678                           | 42,261  |
| Leveraging Educational Assistance Partnership  | 84.069            | 38                               | —   |
| Fund for the Improvement of Postsecondary Education  | 84.116            | 422                              | 270   |
| Rehabilitation Services-Vocational Rehabilitation Grants<br>to States  | 84.126 *          | 93,313                           | 21,936  |
| Rehabilitation Services-Client Assistance Program  | 84.161            | 505                              | —   |
| Immigrant Education  | 84.162            | (339)                            | —   |
| Independent Living-State Grants  | 84.169            | 707                              | 707   |
| Rehabilitation Services-Independent Living Services for<br>Older Individuals Who are Blind                                   | 84.177            | 851                              | 578   |
| Special Education-Grants for Infants and Families<br>with Disabilities   | 84.181            | 1,521                            | 1,521   |
| Safe and Drug-Free Schools and Communities-National<br>Programs  | 84.184            | 1,838                            | 1,838   |
| Byrd Honors Scholarships   | 84.185            | 1,584                            | —   |
| Safe and Drug-Free Schools and Communities-State Grants  | 84.186            | 16,908                           | 16,402  |
| Supported Employment Services for Individuals with<br>Severe Disabilities  | 84.187            | 1,353                            | 1,353   |
| Bilingual Education Support Services   | 84.194            | 6                                | —   |
| Education for Homeless Children and Youth  | 84.196            | 2,305                            | 2,224   |
| Even Start-State Educational Agencies  | 84.213            | 9,210                            | 9,126   |
| Fund for the Improvement of Education  | 84.215            | 2,864                            | 1,247   |
| Private School-Capital Expenses  | 84.216            | (142)                            | —   |
| Assistive Technology   | 84.224            | 3,590                            | 3,590   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster  | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| Rehabilitation Services Demonstration and Training Programs  | 84.235            | 1,724                            | 1,724   |
| Tech-Prep Education  | 84.243            | 4,026                            | 3,566   |
| Rehabilitation Training-State Vocational Rehabilitation Unit<br>In-Service Training  | 84.265            | 176                              | —   |
| Goals 2000-State and Local Education Systemic<br>Improvement Grants  | 84.276            | (764)                            | —   |
| Eisenhower Professional Development State Grants   | 84.281            | 532                              | —   |
| Charter Schools  | 84.282            | 1,479                            | 1,453   |
| Twenty-First Century Community Learning Centers  | 84.287            | 19,478                           | 18,510  |
| Foreign Language Assistance  | 84.293            | 36                               | —   |
| State Grants for Innovative Programs   | 84.298            | 16,182                           | 15,231  |
| Even Start-Statewide Family Literacy Program   | 84.314            | (1)                              | —   |
| Education Technology State Grants  | 84.318            | 26,359                           | 25,838  |
| Special Education-State Program Improvement Grants<br>for Children with Disabilities                                       | 84.323            | 1,591                            | 1,480   |
| Special Education-Research and Innovation to Improve<br>Services and Results for Children with Disabilities                | 84.324            | 202                              | 202   |
| Special Education-Technical Assistance and Dissemination to<br>Improve Services and Results for Children with Disabilities | 84.326            | 651                              | 328   |
| Advanced Placement Program   | 84.330            | 855                              | 506   |
| Grants to States for Incarcerated Youth Offenders  | 84.331            | 869                              | —   |
| Comprehensive School Reform Demonstration  | 84.332            | 13,038                           | 12,583  |
| Teacher Quality Enhancement Grants   | 84.336            | 1,663                            | 1,594   |
| Reading Excellence   | 84.338            | 3,388                            | 3,388   |
| Learning Anytime Anywhere Partnerships   | 84.339            | 93                               | 93  |
| Class Size Reduction   | 84.340            | (2,679)                          | —   |
| Preparing Tomorrow's Teachers to Use Technology  | 84.342            | 165                              | 102   |
| Title I Accountability Grants  | 84.348            | (25)                             | —   |
| Transition to Teaching   | 84.350            | 518                              | 425   |
| School Renovation Grants   | 84.352            | 3,457                            | 3,348   |
| Reading First State Grants   | 84.357 *          | 30,109                           | 30,109  |
| Rural Education  | 84.358            | 905                              | 847   |
| English Language Acquisition Grants  | 84.365            | 20,619                           | 19,842  |
| Mathematics and Science Partnerships   | 84.366            | 2,128                            | 1,983   |
| Improving Teacher Quality State Grants   | 84.367 *          | 115,297                          | 112,815   |
| Grants for State Assessments and Related Activities  | 84.369            | 6,431                            | —   |
| <b>Total U.S. Department of Education</b>  |                   | <u>1,540,141</u>                 |   |
| <b><u>National Archives and Records Administration</u></b>   |                   |                                  |   |
| National Historical Publications and Records Grants  | 89.003            | <u>107</u>                       | —   |
| <b>Total National Archives and Records<br/>Administration</b>  |                   | <u>107</u>                       |   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster  | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|--|-------------------|----------------------------------|---|
|  |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>U.S. Department of Health and Human Services</u></b>   |                   |                                  |   |
| Public Health and Social Services Emergency Fund   | 93.003            | 14,430                           | 11,242  |
| Special Programs for the Aging-Title VII, Chapter 3-Programs<br>for Prevention of Elder Abuse, Neglect, and Exploitation                                       | 93.041            | 206                              | 196   |
| Special Programs for the Aging-Title VII, Chapter 2-Long<br>Term   | 93.042            | 569                              | 541   |
| Care Ombudsman Services for Older Individuals  |                   |                                  |   |
| Special Programs for the Aging-Title III, Part D-Disease<br>Prevention and Health Promotion Services   | 93.043            | 896                              | 856   |
| Aging Cluster:   |                   |                                  |   |
| Special Programs for the Aging-Title III, Part B-Grants<br>for Supportive Services and Senior Centers  | 93.044 *          | 16,919                           | 16,041  |
| Special Programs for the Aging-Title III, Part C-<br>Nutrition Services  | 93.045 *          | 22,543                           | 21,401  |
| Nutrition Services Incentive Program   | 93.053 *          | 4,595                            | 4,595   |
| Total Aging Cluster  |                   | 44,057                           |   |
| Special Programs for the Aging-Title IV-and Title II-<br>Discretionary Projects  | 93.048            | 371                              | 202   |
| National Family Caregiver Support  | 93.052            | 6,740                            | 6,370   |
| Food and Drug Administration-Research  | 93.103            | 43                               | 6   |
| Comprehensive Community Mental Health Services<br>for Children with  | 93.104            | 1,500                            | 1,500   |
| Serious Emotional Disturbances (SED)   |                   |                                  |   |
| Maternal and Child Health Federal Consolidated Programs  | 93.110            | 189                              | 189   |
| Project Grants and Cooperative Agreements for<br>Tuberculosis Control Programs   | 93.116            | 1,221                            | 250   |
| Grants for Technical Assistance Activities Related to the<br>Block Grant for Community Mental Health Services -<br>Technical Assistance Centers for Evaluation | 93.119            | 7                                | —   |
| Primary Care Services-Resource Coordination and<br>Development   | 93.130            | 202                              | 147   |
| Injury Prevention and Control Research and State and<br>Community Based Programs   | 93.136            | 2,320                            | 2,249   |
| Projects for Assistance in Transition from Homelessness<br>(PATH)  | 93.150            | 1,854                            | 1,854   |
| Health Program for Toxic Substances and Disease Registry   | 93.161            | 540                              | —   |
| Grants for State Loan Repayment  | 93.165            | 192                              | 192   |
| Allied Health Special Projects   | 93.191            | 423                              | 423   |
| Childhood Lead Poisoning Prevention Projects-State and<br>Local Childhood Lead Poisoning Prevention and<br>Surveillance of Blood Lead Levels in Children       | 93.197            | 880                              | 867   |
| Family Planning-Services   | 93.217            | 7,781                            | 6,889   |
| Consolidated Knowledge Development and Application<br>(KD&A) Program   | 93.230            | 3,377                            | 2,168   |
| Abstinence Education   | 93.235            | 1,868                            | 1,778   |
| Cooperative Agreements for State Treatment Outcomes and<br>Performance Pilot Studies Enhancement   | 93.238            | 98                               | —   |
| State Rural Hospital Flexibility Program   | 93.241            | 830                              | 823   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster   | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|---|-------------------|----------------------------------|---|
|   |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| Substance Abuse and Mental Health Services-Projects of                                |                   |                                  |   |
| Regional and National Significance  | 93.243            | 42                               | —   |
| Innovative Food Safety Projects   | 93.245            | 37                               | —   |
| Universal Newborn Hearing Screening   | 93.251            | 98                               | 78  |
| State Planning Grant-Health Care Access for the Uninsured                             | 93.256            | 165                              | —   |
| Rural Access to Emergency Devices Grant   | 93.259            | 247                              | 239   |
| Immunization Grants   | 93.268            | 4,389                            | 1,310   |
| Centers for Disease Control and Prevention-Investigations<br>and Technical Assistance | 93.283 *          | 38,139                           | 21,694  |
| Small Rural Hospital Improvement Grants   | 93.301            | 418                              | 418   |
| Abandoned Infants   | 93.551            | 459                              | 335   |
| Promoting Safe and Stable Families  | 93.556            | 17,717                           | 14,186  |
| Temporary Assistance for Needy Families   | 93.558 *          | 499,898                          | 92,594  |
| Child Support Enforcement   | 93.563 *          | 102,462                          | 29,782  |
| Refugee and Entrant Assistance-State Administered Programs                            | 93.566            | 7,813                            | 3,106   |
| Low-Income Home Energy Assistance   | 93.568 *          | 111,173                          | 109,473   |
| Community Services Block Grant  | 93.569            | 28,219                           | 27,282  |
| Community Services Block Grant Discretionary Awards-                                  |                   |                                  |   |
| Community Food and Nutrition  | 93.571            | 104                              | 104   |
| Child Care Cluster:   |                   |                                  |   |
| Child Care and Development Block Grant  | 93.575 *          | 88,979                           | 83,142  |
| Child Care Mandatory and Matching Funds of the  |                   |                                  |   |
| Child Care and Development Fund   | 93.596 *          | 126,814                          | 105,750   |
| Total Child Care Cluster  |                   | 215,793                          |   |
| Refugee and Entrant Assistance-Discretionary Grants                                   | 93.576            | 2,179                            | 1,238   |
| Refugee and Entrant Assistance-Targeted Assistance Grants                             | 93.584            | 1,955                            | 1,955   |
| State Court Improvement Program   | 93.586            | 389                              | 353   |
| Community-Based Family Resource and Support Grants                                    | 93.590            | 872                              | 872   |
| Grants to States for Access and Visitation Programs                                   | 93.597            | 309                              | 309   |
| Head Start  | 93.600            | 2,847                            | 2,263   |
| Basic Center Grant  | 93.623            | 102                              | 102   |
| Developmental Disabilities Basic Support and  |                   |                                  |   |
| Advocacy Grants   | 93.630            | 2,841                            | 1,714   |
| Children's Justice Grants to States   | 93.643            | 644                              | 644   |
| Child Welfare Services-State Grants   | 93.645            | 14,213                           | 7,503   |
| Social Services Research and Demonstration  | 93.647            | 150                              | 150   |
| Adoption Opportunities  | 93.652            | 1,193                            | 156   |
| Foster Care-Title IV-E  | 93.658 *          | 302,292                          | 76,632  |
| Adoption Assistance   | 93.659 *          | 78,999                           | 6,433   |
| Social Services Block Grant   | 93.667 *          | 139,053                          | 79,536  |
| Child Abuse and Neglect State Grants  | 93.669            | 1,149                            | 468   |
| Family Violence Prevention and Services/Grants for Battered                           |                   |                                  |   |
| Women's Shelters-Grants to States and Indian Tribes                                   | 93.671            | 3,102                            | 2,838   |
| Chafee Foster Care Independent Living   | 93.674            | 8,485                            | 6,074   |
| State Children's Insurance Program  | 93.767 *          | 277,823                          | —   |
| Medicaid Infrastructure Grants To Support the Competitive                             |                   |                                  |   |
| Employment of People with Disabilities  | 93.768            | 473                              | —   |

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster   | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|---|-------------------|----------------------------------|---|
|   |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| Medicaid Cluster:   |                   |                                  |   |
| State Medicaid Fraud Control Units  | 93.775 *          | 4,886                            | —   |
| State Survey and Certification of Health Care Providers<br>and Suppliers  | 93.777 *          | 19,097                           | 368   |
| Medical Assistance Program  | 93.778 *          | 5,629,050                        | 95,172  |
| Total Medicaid Cluster  |                   | 5,653,033                        |   |
| Centers for Medicare and Medicaid Services (CMS) Research,<br>Demonstrations and Evaluations  | 93.779            | 699                              | 257   |
| Medical Library Assistance  | 93.879            | 18                               | —   |
| Grants to States for Operation of Offices of Rural Health   | 93.913            | 118                              | 35  |
| HIV Care Formula Grants   | 93.917 *          | 32,019                           | 5,739   |
| Healthy Start Initiative  | 93.926            | 2,286                            | 2,159   |
| Cooperative Agreements to Support Comprehensive<br>School Health Programs to Prevent the Spread of HIV<br>and Other Important Health Problems | 93.938            | 223                              | 91  |
| HIV Prevention Activities-Health Department Based   | 93.940            | 4,784                            | 2,867   |
| Human Immunodeficiency Virus (HIV)/Acquired<br>Immunodeficiency Virus Syndrome (AIDS) Surveillance  | 93.944            | 932                              | 62  |
| Assistance Programs for Chronic Disease Prevention<br>and Control   | 93.945            | 656                              | 92  |
| Improving EMS/Trauma Care in Rural Areas  | 93.952            | 40                               | —   |
| Block Grants for Community Mental Health Services   | 93.958            | 16,071                           | 15,637  |
| Block Grants for Prevention and Treatment of<br>Substance Abuse   | 93.959 *          | 64,128                           | 60,713  |
| Preventive Health Services-Sexually Transmitted<br>Diseases Control   | 93.977            | 1,480                            | 681   |
| Cooperative Agreements for State-Based Diabetes Control<br>Programs and Evaluation of Surveillance Systems                                    | 93.988            | 784                              | 457   |
| Preventive Health and Health Services Block Grant   | 93.991            | 2,723                            | 567   |
| Maternal and Child Health Services Block Grant to the States  | 93.994            | 22,177                           | 19,097  |
| <b>Total U.S. Department of Health and<br/>        Human Services</b>   |                   | <u>7,759,008</u>                 |   |
| <b><u>Corporation for National and Community Service</u></b>  |                   |                                  |   |
| State Commissions   | 94.003            | 280                              | 26  |
| Learn and Serve America-School and Community<br>Based Programs  | 94.004            | 982                              | 813   |
| AmeriCorps  | 94.006            | 2,990                            | 2,990   |
| Planning and Program Development Grants   | 94.007            | 170                              | 170   |
| Training and Technical Assistance   | 94.009            | 61                               | 59  |
| <b>Total Corporation for National and<br/>        Community Service</b>   |                   | <u>4,483</u>                     |   |



**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

| Federal Agency/Program or Cluster   | Federal<br>CFDA # | Amounts (expressed in thousands) |   |
|---|-------------------|----------------------------------|---|
|   |                   | Expenditures                     | Passed-<br>through to<br>subrecipients<br>(Unaudited) |
| <b><u>Social Security Administration</u></b>                              |                   |                                  |   |
| Social Security-Disability Insurance                                      | 96.001 *          | 61,282                           | —   |
| Social Security-Research and Demonstration                                | 96.007            | 75                               | 31  |
| Social Security-Benefits Planning, Assistance, and<br>Outreach Program    | 96.008            | 609                              | 56  |
| <b>Total Social Security Administration</b>                               |                   | <b>61,966</b>                    |   |
| <b><u>U.S. Department of Homeland Security</u></b>                        |                   |                                  |   |
| State Domestic Preparedness Equipment Support Program                     | 97.004            | 18,563                           | 16,646  |
| State and Local Homeland Security Exercise Support                        | 97.006            | 912                              | —   |
| Boating Safety Financial Assistance                                       | 97.012            | 1,476                            | —   |
| State Access to the Oil Spill Liability Trust Fund                        | 97.013            | 55                               | —   |
| Hazardous Materials Assistance Program                                    | 97.021            | 3                                | —   |
| Community Assistance Program State Support Services<br>Element (CAP-SSSE) | 97.023            | 240                              | —   |
| Flood Mitigation Assistance   | 97.029            | 77                               | 77  |
| Crisis Counseling   | 97.032            | 54                               | 54  |
| Disaster Unemployment Assistance  | 97.034            | 44                               | —   |
| Individual and Family Grants  | 97.035            | 1                                | —   |
| Public Assistance Grants  | 97.036            | 1,574                            | 1,319   |
| Hazard Mitigation Grant   | 97.039            | 2,239                            | 2,061   |
| Chemical Stockpile Emergency Preparedness Program                         | 97.040            | 567                              | 221   |
| Emergency Management Performance Grants                                   | 97.042            | 4,376                            | 2,415   |
| Pre-Disaster Mitigation   | 97.047            | 243                              | —   |
| State and Local All Hazards Emergency Operations Planning                 | 97.051            | 1,526                            | 939   |
| Emergency Operations Centers  | 97.052            | 26                               | —   |
| Citizen Corps   | 97.053            | 133                              | —   |
| Community Emergency Response Teams  | 97.054            | 592                              | 545   |
| <b>Total U.S. Department of Homeland Security</b>                         |                   | <b>32,701</b>                    |   |
| Total expenditures of federal awards                                      |                   | <b>\$ 16,210,300</b>             | <b>3,451,382</b>                                      |

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 Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

#### (1) Summary of Significant Accounting Policies

##### (a) Reporting Entity

The schedule of expenditures of federal awards includes all federal award programs administered by the State of Illinois except for component units for the fiscal year ended June 30, 2004. The State of Illinois' financial reporting entity is described in note 1B of the State's basic financial statements.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2004. 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       | Governors State University             |
| Illinois State University    | Northeastern Illinois University       |
| Northern Illinois University | Eastern Illinois University            |
| Chicago State University     | Illinois Finance Authority             |
| Western Illinois University  | Illinois Conservation Foundation       |
| Southern Illinois University | Illinois Housing Development Authority |

##### (b) 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).

##### (c) 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 modified accrual basis. The modified accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. Thus, those Federal programs presenting negative amounts on the schedule of expenditures of federal awards are the result of either prior year estimates being overstated or subgrantee repayments of discontinued programs.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

#### (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:

##### US Department of Agriculture

###### Food Donation (CFDA No. 10.550)

The object of this program is to improve the diets of school and preschool children, the elderly, needy persons in charitable institutions, other individuals in need of food assistance, and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

###### Food Stamp Cluster: Food Stamps (CFDA No. 10.551) / State Administrative Matching Grants for Food Stamp Program (CFDA No. 10.561)

The objective of these programs is to help low-income households by increasing their food purchasing ability.

###### Child Nutrition Cluster: School Breakfast Program (CFDA No. 10.553) / National School Lunch Program (CFDA No. 10.555) / Special Milk Program for Children (CFDA No. 10.556) / Summer Food Service Program for Children (CFDA No. 10.559)

The purposes of these programs is to assist states in providing nutritious meals to eligible children and encourage the consumption of fluid milk by children enrolled in schools or half-day kindergartens where they do not have access to other federally funded meal programs. Furthermore, these programs are designed to conduct non-profit food service programs for low-income children during summer months and when schools are out of session or closed for vacation.

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

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

###### Child and Adult Care Food Program (CFDA No. 10.558)

The purpose of this program is to assist states, through grants-in-aid and other means, to provide nutritious meals to children and elderly or impaired adults in nonresidential day care facilities and children in emergency shelters.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

#### **US Department of Housing and Urban Development**

##### Community Development Block Grants / State's Program (CFDA No. 14.228)

The purpose 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.

#### **US Department of Labor**

##### Employment Services Cluster: Employment Service (CFDA No. 17.207) / Disabled Veterans' Outreach Program CFDA No. 17.801 / Local Veterans' Employment Representative Program (CFDA No. 17.804)

The objective of the Employment Service program is to place persons in employment by providing a variety of placement-related services without charge to job seekers and to employers seeking qualified individuals to fill job openings.

The objective of the Disabled Veterans' Outreach program is to provide jobs and job training opportunities for disabled and other veterans through contacts with employers; promote and develop on-the-job training and apprenticeship; provide outreach; provide assistance to community-based groups; develop links with other agencies; and provide job placement, counseling, testing, and job referral.

The objective of the Local Veterans' Employment Representative program is to provide job development, placement and support services directly to veterans.

##### 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.

##### Trade Adjustment Assistance – Workers (CFDA No. 17.245)

This program's objective is to provide allowance adjustment assistance to qualified workers adversely affected by foreign trade, which will assist them to obtain suitable employment.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

Workforce Investment Act Cluster: Workforce Investment Act (CFDA No. 17.255) / Workforce Investment Act Adult Program (CFDA No. 17.258) / Workforce Investment Act Youth Activities (CFDA No. 17.259) / Workforce Investment Act Dislocated Workers (CFDA No. 17.260)

The objective of these programs are to provide workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by the participants in order to improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the nation's economy; to design, with States and local communities, a revitalized, workforce investment system that will 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, improve the quality of the workforce and enhance the productivity and competitiveness of the nation's economy.

#### **US 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 (CFDA No. 20.205)

The objective of this program is to assist states in planning and developing integrated, interconnecting transportation systems by constructing and rehabilitating the National Highway System, including Interstate highways; for transportation improvements to all public roads that are not functionally classified as local; and to provide aid in the repair of Federal-aid roads and streets following disasters. This program also provides transportation engineering services for planning; design, construction and rehabilitation of the highways and bridges providing access to federally owned lands.

#### **US Department of the Treasury**

Jobs & Growth Tax Relief Reconciliation Act (CFDA No. 21.XXX)

The purpose of this one-time program is to provide temporary state fiscal relief through two annual payments made in federal fiscal years 2003 and 2004.

#### **US Environmental Protection Agency**

Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)

The objective of this program is to provide financial assistance to state governments in establishing a water pollution control revolving fund for constructing wastewater treatment facilities and implementing other water quality management activities.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

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

This program provides grants to states to capitalize their Drinking Water State Revolving Funds, which will provide a long-term source of State financing for the costs of drinking water infrastructure. This funding can also be used for programs that emphasize preventing contamination problems through source water protection and enhancing water system management.

#### **US Department of Education**

##### Title I Grants to Local Educational Agencies (CFDA No. 84.010)

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)

The purpose of the Grants to States program is to provide grants to states to assist them in providing a free appropriate public education to all children with disabilities.

The purpose of the Preschool Grants program is to provide grants to states to assist them in providing a free appropriate public education to preschool disabled children aged three through five years.

##### Federal Family Education Loans (CFDA No. 84.032)

The objective of this program is the establishment of nonprofit and state guaranty agencies to guarantee student loans made by lenders and perform certain administrative and oversight functions under the Federal Family Education Loan Program, which includes the Federal Stafford Loan, Federal PLUS, Federal SLS, and Federal Consolidation Loan programs.

##### Vocational Education — Basic Grants to States (CFDA No. 84.048)

The purpose of this program is to assist states and outlying areas to expand and improve their programs of vocational education and provide equal access in vocational education to special needs populations.

##### Rehabilitation Services - Vocational Rehabilitation Grants to States (CFDA No.84.126)

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.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

#### Reading First State Grants (CFDA No. 84.357)

The objective of this program is to ensure that every student can read at grade level or above by the end of the third grade. This program provides assistance to states and districts in establishing reading programs for students in kindergarten through third grade. This program also focuses on teacher development and ensuring that all teachers, including special education teachers, have the tools they need to effectively help their students learn to read. This program also provides assistance to states and districts in preparing teachers to identify specific reading barriers facing their students.

#### 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 academics achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

### **US Department of Health and Human Services**

#### Aging Cluster: Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers (CFDA No. 93.044) / Special Programs for the Aging – Title III, Part C – Nutrition Services (CFDA No. 93.045) / Nutrition Services Incentive Program (CFDA No. 93.053)

The objective of these programs is to encourage State Agencies on Aging to concentrate resources to develop and implement comprehensive coordinated community-based systems of service for older individuals, including multipurpose senior centers and to provide grants to states to support nutrition services including nutritious meals and nutrition education for older Americans in order to maintain health and independence.

#### Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA No. 93.283)

This program assists states and local health authorities and other health related organizations in controlling communicable diseases, chronic diseases and disorders, and other preventable health conditions. Investigations and evaluation of all methods of controlling or preventing disease and disability are carried out by providing epidemic aid, surveillance, technical assistance, consultation, and program support; and by providing leadership and coordination of joint national, state, and local efforts.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

#### Temporary Assistance for Needy Families (CFDA No. 93.558)

The objective of this program is to provide time-limited assistance to needy families with children so the children can be cared for in their own home or in the homes of relatives; end dependence of needy parents on governmental benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families.

#### 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 (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 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 93.596)

The objective of these programs is to provide funds to states to increase the availability, affordability, and quality of childcare services for low-income families where the parents are working or attending training or educational programs.

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

The objective of this program is to help states provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering state agency and need temporary placement and care outside their homes.

#### Adoption Assistance (CFDA No. 93.659)

The objective of this program is to facilitate the placement of hard to place children in permanent adoptive homes and prevent long, inappropriate stays in foster care.

#### 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.

(Continued)



## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

#### State Children's 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: 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 provide payments for medical assistance to low income persons who are 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

#### HIV Care Formula Grants (CFDA No. 93.917)

The objective of this program is to enable states to improve the quality, availability, and organization of health care services for individuals and families with Human Immunodeficiency Virus (HIV) disease.

#### 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.

### **US Social Security Administration**

#### Social Security – Disability Insurance (CFDA No. 96.001)

The purpose of this program is to replace part of the earnings lost because of a physical or mental impairment, or a combination of impairments, severe enough to prevent a person from working.

### **(3) Non-monetary Assistance Inventory**

The State reports the following non-cash federal awards on the supplementary schedules included in this note:

- Food Donation Program (CFDA No. 10.550) — Federal expenditures for this program represent the value of the food received and distributed to other governmental agencies and are valued at the value assigned by the donor, the U.S. Department of Agriculture.
- Food Stamps (CFDA No. 10.551) — Federal expenditures for this program represent the value of food stamp coupons issued to eligible recipients and cash assistance made available to eligible recipients in lieu of food stamp coupons.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

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

#### (4) Federally Funded Loan Programs

Loan balances of federally funded loan programs at June 30, 2004 included the following:

| <b>CFDA No.</b> | <b>Program</b>                        | <b>Outstanding Loans<br/>as of 6/30/04</b> |
|-----------------|---------------------------------------|--|
| 84.032          | Federal Family Education Loan Program | \$2,501,537,000                            |



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

**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, 2004, and have issued our report thereon dated May 16, 2005. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting of the Schedule and its operation that we consider 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 our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedule. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 04-01 through 04-12, 04-15, and 04-53.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting of the Schedule would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that



are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-15 and 04-53 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 04-53.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the management at 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 16, 2005



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

**Independent Auditors' Report  
on Compliance with Requirements Applicable to  
Each Major Program and Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

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 are applicable to its major federal programs for the year ended June 30, 2004. 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 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*.

Except as discussed in the first and third following paragraphs, 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

**Disclaimer**

As described in the accompanying schedule of findings and questioned costs in finding 04-65, we were unable to express, and we do not express, an opinion on the compliance of the State of Illinois with the requirements applicable to its Unemployment Insurance program.



Adverse

As described in the accompanying schedule of findings and questioned costs and the findings listed below, the State did not comply with certain compliance requirements that are applicable to its Reading First State Grants and Federal Family Education Loans programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to these programs.

| <b>State Administering Agency</b> | <b>Federal Program</b>         | <b>Compliance Requirement(s)</b>                                      | <b>Finding Number</b> |
|-----------------------------------|--------------------------------|---|-----------------------|
| IL State Board of Education       | Reading First State Grants     | Allowable Costs/Cost Principles                                       | 04-45                 |
| IL State Board of Education       | Reading First State Grants     | Allowable Costs/Cost Principles/ Eligibility/ Subrecipient Monitoring | 04-46                 |
| IL Student Assistance Commission  | Federal Family Education Loans | Special Tests and Provisions  | 04-53                 |

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.

| <b>State Administering Agency</b>    | <b>Federal Program</b>   | <b>Compliance Requirement(s)</b>         | <b>Finding Number</b> |
|--------------------------------------|--|--|-----------------------|
| IL Department of Public Health       | Centers for Disease Control and Prevention – Investigations and Technical Assistance | Cash Management                          | 04-41                 |
| IL Department of Public Health       | HIV Care Formula Grants  | Cash Management                          | 04-41                 |
| IL Department of Public Health       | Centers for Disease Control and Prevention – Investigations and Technical Assistance | Cash Management/ Subrecipient Monitoring | 04-43                 |
| IL Department of Public Health       | HIV Care Formula Grants  | Cash Management/ Subrecipient Monitoring | 04-43                 |
| IL Department of Employment Security | Employment Services Cluster  | Reporting                                | 04-67                 |

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. 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.

| <b>State Administering Agency</b>                  | <b>Federal Program</b>   | <b>Compliance Requirement(s)</b>                                 | <b>Finding Number</b> |
|--|--|--|-----------------------|
| IL Department of Human Services                    | Temporary Assistance for Needy Families  | Allowable Costs/Cost Principles                                  | 04-14                 |
| IL Department of Human Services                    | Medicaid Cluster   | Allowable Costs/Cost Principles and Eligibility                  | 04-15                 |
| IL Department of Human Services                    | State Children’s Insurance Program   | Allowable Costs/Cost Principles and Eligibility                  | 04-15                 |
| IL Department of Human Services                    | Temporary Assistance for Needy Families  | Allowable Costs/Cost Principles and Eligibility                  | 04-15                 |
| IL Department of Human Services                    | Temporary Assistance for Needy Families  | Allowable Costs/Cost Principles and Special Tests and Provisions | 04-16                 |
| IL Department of Human Services                    | Social Services Block Grant  | Allowable Costs/Cost Principles and Earmarking                   | 04-17                 |
| IL Department of Public Aid                        | Temporary Assistance for Needy Families  | Allowable Costs/Cost Principles and Special Tests and Provisions | 04-29                 |
| IL Department of Children and Family Services      | Foster Care – Title IV-E   | Allowable Costs/Cost Principles and Eligibility                  | 04-35                 |
| IL Department of Children and Family Services      | Foster Care – Title IV-E   | Subrecipient Monitoring  | 04-36                 |
| IL Department of Children and Family Services      | Adoption Assistance  | Subrecipient Monitoring  | 04-36                 |
| IL Department of Children and Family Services      | Temporary Assistance for Needy Families  | Subrecipient Monitoring  | 04-36                 |
| IL Department on Aging                             | Aging Cluster  | Subrecipient Monitoring  | 04-38                 |
| IL Department of Public Health                     | HIV Care Formula Grants  | Allowable Costs/Cost Principles and Eligibility                  | 04-40                 |
| IL Department of Public Health                     | Centers for Disease Control and Prevention – Investigations and Technical Assistance | Subrecipient Monitoring  | 04-42                 |
| IL Department of Public Health                     | HIV Care Formula Grants  | Subrecipient Monitoring  | 04-42                 |
| IL Department of Commerce and Economic Opportunity | Workforce Investment Act Cluster   | Subrecipient Monitoring  | 04-64                 |
| IL Department of Employment Security               | Trade Adjustment Assistance – Workers  | Allowable Costs/Cost Principles and Eligibility                  | 04-66                 |

In our opinion, because of the effects of the noncompliance described in the third preceding paragraph, the State did not comply in all material respects, with the requirements referred to above



that are applicable to its Federal Family Education Loans and Reading First programs. Also, 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 and fourth preceding paragraphs, 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, 2004. 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 on pages 65 through 186.

### **Internal Control Over Compliance**

The 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 in order to determine our 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.

We noted certain matters involving internal control over compliance and its operation that we consider 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 compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 04-13 through 04-64 and 04-66 through 04-71.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-13, 04-14, 04-15, 04-16, 04-17, 04-19, 04-20, 04-21, 04-23, 04-29, 04-35, 04-36, 04-38, 04-40, 04-41, 04-42, 04-43, 04-45, 04-46, 04-47, 04-48, 04-51, 04-53, 04-56, 04-64, 04-66, 04-67, and 04-71 to be material weaknesses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the management at 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 16, 2005



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**(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) Reportable conditions in internal control were disclosed by the audit of the basic financial statements by the Auditor General, State of Illinois: **yes**  
Material weaknesses: **yes**
- (b)(2) Reportable conditions in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **yes**  
Material weaknesses: **yes**
- (c)(1) Noncompliance which is material to the basic financial statements: **no**
- (c)(2) Noncompliance which is material to the schedule of expenditures of federal awards: **yes**
- (d) Reportable conditions in internal control over major programs: **yes**  
Material weaknesses: **yes**
- (e) The type of report issued on compliance for major programs:

**Disclaimer:**

Unemployment Insurance

**Adverse:**

Reading First State Grants  
Federal Family Education Loans

**Qualifications (Scope Limitation):**

Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants  
Employment Services Cluster

**Qualifications (Noncompliance):**

Temporary Assistance for Needy Families  
Medicaid Cluster  
State Children's Insurance Program  
Social Services Block Grant  
Foster Care – Title IV-E  
Adoption Assistance  
Aging Cluster  
HIV Care Formula Grants  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
Workforce Investment Act Cluster  
Trade Adjustment Assistance – Workers

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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

(g) Major programs:

#### **US Department of Agriculture**

- Food Donation
- Food Stamp Cluster
- Child Nutrition Cluster
- Special Supplemental Nutrition Program for Women, Infants and Children
- Child and Adult Care Food Program

#### **US Department of Housing and Urban Development**

- Community Development Block Grants/State's Program

#### **US Department of Labor**

- Employment Services Cluster
- Unemployment Insurance
- Trade Adjustment Assistance – Workers
- Workforce Investment Act Cluster

#### **US Department of Transportation**

- Airport Improvement Program
- Highway Planning and Construction

#### **US Department of Treasury**

- Jobs and Growth Tax Relief Reconciliation Act

#### **US Environmental Protection Agency**

- Capitalization Grants for Clean Water State Revolving Funds
- Capitalization Grants for Drinking Water State Revolving Funds

#### **US Department of Education**

- Title I Grants to Local Educational Agencies
- Special Education Cluster
- Federal Family Education Loans
- Vocational Education – Basic Grants to States
- Rehabilitation Services – Vocational Rehabilitation Grants to States
- Reading First State Grants
- Improving Teacher Quality State Grants

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **US Department of Health and Human Services**

- Aging Cluster
- Centers for Disease Control and Prevention – Investigations and Technical Assistance
- Temporary Assistance for Needy Families
- Child Support Enforcement
- Low-Income Home Energy Assistance Program
- Child Care Cluster
- Foster Care – Title IV-E
- Adoption Assistance
- Social Services Block Grant
- State Children’s Insurance Program
- Medicaid Cluster
- HIV Care Formula Grants
- Block Grants for the Prevention and Treatment of Substance Abuse

#### **US Social Security Administration**

- Social Security Disability Insurance Cluster

(h) Dollar threshold used to distinguish between Type A and Type B programs:  
**\$30,000,000**

(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:***

A finding related to the basic financial statements for the year ended June 30, 2004 was reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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

The findings listed below are located on pages 36 through 59.

| <b>Finding No.</b> | <b>State Agency</b>                                | <b>Finding Title</b>  |                      |
|--------------------|--|---|----------------------|
| 04-01              | IL Office of the Comptroller                       | Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards | Reportable condition |
| 04-02              | IL Department of Human Services                    | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-03              | IL Department of Public Aid                        | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-04              | IL Department of Children and Family Services      | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-05              | IL Department of Public Health                     | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-06              | IL State Board of Education                        | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-07              | IL Student Assistance Commission                   | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-08              | IL Community College Board                         | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-09              | IL Department of Transportation                    | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-10              | IL Department of Commerce and Economic Opportunity | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-11              | IL Department of Employment Security               | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |
| 04-12              | IL Department Natural Resources                    | Inadequate Process for Accurate and Timely Financial Reporting                  | Reportable condition |

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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:

| <b>Finding No.</b> | <b>State Agency</b>              | <b>Finding Title</b>  |  |
|--------------------|----------------------------------|---|--|
| 04-15              | IL Department of Human Services  | Failure to Perform Eligibility Re-determinations within Prescribed Timeframes | Material weakness                            |
| 04-53              | IL Student Assistance Commission | Processing and Submission of Re-insurance Claims                              | Material noncompliance and material weakness |

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Office of the Comptroller (IOC)

**Federal Agency:** All Federal Agencies

**Finding 04-01** *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

The State of Illinois (the State) does not have an adequate process in place to permit the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA).

The State's process for compiling the SEFA requires each state agency to complete a series of manual financial reporting forms (SCO forms) which detail by fund the CFDA number, total program expenditures, funds passed through to subrecipients, and transfers of program funds between state agencies for each federal program. The SCO forms are collected by the Illinois Office of the Comptroller (IOC) and are reviewed for any discrepancies or errors. Once any of these identified errors and discrepancies have been resolved with the responsible state agency, the finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) in an electronic database for the compilation of the SEFA. As part of their compilation procedures, the OAG performs a series of analytical and verification procedures (including agreeing CFDA numbers, program expenditures, amounts passed through to subrecipients or passed to other state agencies to the reporting agency's records) to ensure amounts reported are complete, accurate, and properly presented.

During fiscal year 2003 and 2004, improvements were made to automate the SEFA reporting process, which allowed the IOC to provide a preliminary SEFA to the OAG in November. However, the overall reporting process for the State continues to be delayed by the complexity and manual nature of the SCO forms and delays in their submission by the state agencies. The final electronic database was not completed and submitted by the IOC to the OAG until February 14, 2005 resulting in the compilation of the SEFA being completed in March 2005 (approximately nine months after the State's fiscal year end). The current reporting process does not allow for the timely completion of an audit in accordance with OMB Circular A-133.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements (Comprehensive Annual Financial Report issued by the IOC), 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 IOC, they stated the State does not have a process in place to monitor the accuracy of State agency financial reporting in relation to the State's federal awards.

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

Failure to prepare the SEFA in an accurate and timely manner prevents the State from completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-01, 03-01, 02-01)

#### **Recommendation:**

We recommend the IOC review the current process and information systems for compiling the SEFA and consider changes that will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe. This review should consider the cost/benefit of implementing a statewide grant accounting system.

#### **IOC Response:**

The IOC agrees the State does not have an adequate process in place to permit the timely compilation of the schedule of expenditures of federal awards (SEFA). The IOC will consult with the Governor's Office of Management and Budget (GOMB) to establish and implement monitoring procedures for State agency financial reporting in relation to the State's federal awards, including the possible implementation of a statewide grant accounting system.

The IOC will also continue to automate reporting forms, as time and budget constraints allow, and assist agencies in completing financial reporting forms. These efforts should facilitate more timely completion of the State's schedule of federal awards in the future.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** All Federal Agencies

**Finding 04-02** *Inadequate Process for Accurate and Timely Financial Reporting*

IDHS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

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 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 this with IDHS officials, they stated they disagree with the finding.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-02, 03-02, 02-02)

**Recommendation:**

We recommend IDHS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **IDHS Response:**

Disagree. The Department accepted this audit finding and recommendation in the state fiscal year 2003 audit report and indicated that we would review the Department's existing processes for reporting of financial information to the Illinois Office of the Comptroller (IOC). The Department was proactive in many ways over the past year aimed specifically at resolving this issue including participating in a workgroup with other Single Audit Agencies. IDHS also engaged outside consultants to review the processes involved in reconciling the "bucket" information provided to KPMG, the Statewide Single Auditors, to the GAAP reporting information used to prepare the Department's Schedule of Expenditures of Federal Awards (SEFA). As a result of these actions, the financial reporting by IDHS for state fiscal year 2004 showed significant improvement in that fewer audit adjustments were made and the audit adjustments made for TANF and Child Care programs were more timely this year than in previous years. A material internal control weakness related to financial reporting was not noted during the financial audit and an audit finding was not included in the state fiscal year 2004 Financial Audit Report issued by the OAG.

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

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

#### **Auditors' Comment:**

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

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Public Aid (IDPA)

**Federal Agency:** All Federal Agencies

**Finding 04-03** *Inadequate Process for Accurate and Timely Financial Reporting*

IDPA does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted correcting journal entries were required to accurately state amounts reported by IDPA.

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

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-03, 03-03)

**Recommendation:**

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

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**IDPA Response:**

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

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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

**Federal Agency:** All Federal Agencies

**Finding 04-04** *Inadequate Process for Accurate and Timely Financial Reporting*

DCFS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the DCFS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner.

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 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 this with DCFS officials, they stated the due date established for the annual reporting for fiscal year 04 including the lapse period ended August 31, 2004 was set to be September 10, 2004. The Department's financial infrastructure is not sufficient to complete an accurate annual financial reporting within 10 calendar days. Additional time was needed to prepare the information. DCFS submitted two packages two days after the due date and two other packages one week later. DCFS worked directly with the Comptroller's office to ensure they were aware of the delays and that it would not impact their timeframes. The reports submitted were accurate, as no adjustments were needed. The initial reporting, however, is only one step in timely completion of the State's financial statements and SEFA. Inconsistent communication regarding the review of resulting financial report, revisions to financial reports, and additional presentation requests from the various groups also delayed meeting the November 16, 2004 date established for completion of the SEFA.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-04, 03-04, 02-03)

**Recommendation:**

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

We recommend DCFS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms.

**DCFS Response:**

The Department will continue to evaluate its procedures and work schedules for timely completion of the required forms and try to respond timely to requests made by the Office of the Comptroller by gathering and submitting the financial information to assist the Office of the Auditor General in their review of the SEFA data. Additionally, the Department would support efforts by the Office of the Comptroller to modernize the financial and grant reporting infrastructure.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Public Health (IDPH)

**Federal Agency:** All Federal Agencies

**Finding 04-05** *Inadequate Process for Accurate and Timely Financial Reporting*

IDPH does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely. Additionally, as a result of this inadequate process, two additional major program administered by IDPH that were required to be audited were not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the IDPH information available for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, two additional major programs administered by IDPH that were required to be audited were not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

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 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 this with IDPH officials, they stated that SEFA and SCO reports were submitted to the Comptroller's Office in a timely manner. Notification to the Auditor General's Office identifying Type A Programs was delayed since the department had never reached the applicable dollar threshold before.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-05, 03-14, 02-12)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **Recommendation:**

We recommend IDPH review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDPH should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. IDPH year-end procedures should include monitoring Federal program expenditures more timely so they can identify and notify the State's auditors of all programs requiring an audit in accordance with OMB Circular A-133.

#### **IDPH Response:**

The Department concurs with the recommendation and will work closely with the Comptroller's Office and the Auditor General's Office to improve the timing and accuracy of financial reporting information and notification.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** All Federal Agencies

**Finding 04-06** *Inadequate Process for Accurate and Timely Financial Reporting*

ISBE does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely. Additionally, as a result of this inadequate process, an additional major program administered by ISBE that was required to be audited was not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the ISBE information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by ISBE. As a result of this inadequate process, an additional major program administered by ISBE that was required to be audited was not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

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 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 this with ISBE officials, they stated that the Agency recognizes that delays in the financial reporting process may be caused by both internal and external factors and will work to improve the process. The loss of key staff was a factor in the late identification of the major program and the process will be reviewed to ensure timely identification in the future.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-06, 03-05, 02-04)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **Recommendation:**

We recommend ISBE review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISBE should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. ISBE year-end procedures should include monitoring Federal program expenditures more timely so they can identify and notify the State's auditors of all programs requiring an audit in accordance with OMB Circular A-133.

#### **ISBE Response:**

The Agency agrees that the reporting of federal expenditures should be timely and accurate. The Agency will work towards improving its own internal processes and procedures, as well as gladly participate with the Illinois Office of the Comptroller, the Office of the Auditor General, and other state agencies in an effort to develop any potential improvements to the overall process. In addition, the Agency will review its procedures for the identification of all major programs and develop and document the methodology to ensure future programs are identified in a timely manner.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** All Federal Agencies

**Finding 04-07** *Inadequate Process for Accurate and Timely Financial Reporting*

ISAC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the ISAC information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by ISAC.

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 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 this with ISAC officials, they stated that the increasing complexity of the student loan programs coupled with the number of parties involved in the financial reporting process makes it difficult to finalize the financial information within the required timeframe.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-07, 03-06, 02-05)

**Recommendation:**

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

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**ISAC Response:**

ISAC is committed to working with the Illinois Office of the Comptroller and the Illinois Office of the Auditor General to ensure timely completion of the SCO reporting requirements. To address this concern the agency is continuing to review our internal processes for reporting federal expenditures and will consult with the Illinois Office of the Comptroller on reporting process improvements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Community College Board (ICCB)

**Federal Agency:** All Federal Agencies

**Finding 04-08** *Inadequate Process for Accurate and Timely Financial Reporting*

ICCB does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the ICCB information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, correcting journal entries were required to accurately state amounts reported by ICCB.

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 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 this with ICCB officials, they stated that the process of preparing the agency's SCO forms relies heavily upon entities outside of their control.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-08, 03-07)

**Recommendation:**

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

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**ICCB Response:**

The Board accepts the finding. The GAAP package is submitted timely each year; however, because the coordination of funds between other agencies; sometimes, the package is modified at a later date.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** All Federal Agencies

**Finding 04-09** *Inadequate Process for Accurate and Timely Financial Reporting*

IDOT does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the IDOT information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, correcting journal entries were required to accurately state amounts reported by IDOT.

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 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 this with IDOT officials, they stated that proper steps are taken to ensure the timely submission of complete and accurate forms to the IOC.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-09, 03-08, 02-06)

**Recommendation:**

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

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **IDOT Response:**

The Department disagrees with the finding. All fund packages were submitted to the Comptroller when due, except for the Road Fund. The initial submission of the Road Fund Package was made on September 14, 2004, two working days after it was due to the Comptroller. Based on subsequent review, changes were made to the SCO-563 relating to the Department of Homeland Security Public Assistance Grants. Initially, the department had included payments made to IEMA on the SCO-563; however, these should have been included on the SCO-567 instead. In addition, the entry for the Local Share of Highway Construction for Local Governmental Units was split for Grant Types "O" and "C", when originally it had been combined. These changes did not have any impact on the SEFA. The final submission date of the Road Fund Package was made by the Department to the Comptroller on October 3, 2004. The SEFA is considered final once the Letter of Agreed Upon Procedures is submitted to the Office of the Comptroller. The Department's auditing firm, BKD LLP, prepared the Letter of Agreed Upon Procedures for the Comptroller on November 3, 2004.

When fund packages are submitted, a reconciliation of the reporting package to the accounting system and report to federal agencies is completed. During FY 2004, this information was prepared by the General Accounting Unit Supervisor and then was reviewed by the Accounts and Finance Manager.

The Department will continue to work closely with the Office of the Comptroller to improve and enhance the timing and accuracy of GAAP reporting requirements. All of the fund packages except one were filed by the due date. Only one fund package was filed two days late. This was neither a violation of State statute nor was it ever reported that this caused dismay or an administrative burden on the Comptroller's Office.

#### **Auditors' Comment:**

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

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** All Federal Agencies

**Finding 04-10** *Inadequate Process for Accurate and Timely Financial Reporting*

DCEO does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the DCEO information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by DCEO.

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 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 this with DCEO officials, they indicated they met all deadlines for financial reporting with the Illinois Office of the Comptroller. DCEO officials agree journal entries were made or corrected after financial statements were submitted as a result of the agency being dependent upon the Comptroller's Office to supply financial data to complete or revise the forms.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-10, 03-09, 02-07)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **Recommendation:**

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

#### **DCEO Response:**

The Department agrees to continue to work closely with the Illinois Office of the Comptroller to improve timely submission of complete and accurate forms. Accounting changes were implemented during this audit period that will make it easier for the Department to complete the financial statements in the future. DCEO has been a part of and will continue with any multi-agency discussion groups or other initiatives on financial reporting issues to improve and make the statewide compilation process more efficient. Financial information will continue to be reconciled and have a supervisory review before reports are submitted to the Illinois Office of the Comptroller.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** All Federal Agencies

**Finding 04-11** *Inadequate Process for Accurate and Timely Financial Reporting*

IDES does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely. Additionally, as a result of this inadequate process, an additional major program administered by IDES that was required to be audited was not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the IDES information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, an additional major program that was required to be audited was not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

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 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 this with IDES officials, they stated the financial statements are based on our GAAP package which was submitted on September 10, 2004, with a brief approved extension granted by the Comptroller's office. We requested the extension in part due to issues in reporting current and previous years' data related to the transfer of the WIA program to DCEO. The final GAAP was received on November 16th from the IOC with a memo dated November 13th and we completed the Final Financial statements on November 16th 2004.

The error in calculating the TRA program as a major program is due to separate funding streams for TRA reporting and the recent significant expansion of eligibility due to changes to the federal statute. At the April 29, 2004 single audit entrance conference, IDES mentioned that this program could, for the first time, ultimately exceed the \$30 million threshold which would make this a major program but also acknowledged that the combined total benefits and administrative expenditures were below the threshold at that time. However, it was not until we received the SEFA report in November that we found this cluster was a major program.

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-11, 03-10, 02-08)

#### **Recommendation:**

We recommend IDES review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. IDES year-end procedures should include monitoring Federal program expenditures more timely so they can identify and notify the State's auditors of all programs requiring an audit in accordance with OMB Circular A-133.

#### **IDES Response:**

IDES concurs with the audit finding. We will continue to work with the IOC to improve the timing of GAAP review to allow for more timely preparation of financial statements. IDES will recheck all clusters each August to determine if there are any programs that exceed the \$30 million threshold.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Natural Resources (IDNR)

**Federal Agency:** All Federal Agencies

**Finding 04-12** *Inadequate Process for Accurate and Timely Financial Reporting*

IDNR does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the IDNR information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDNR.

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 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 this with IDNR officials, they stated inaccurate GAAP preparation and reporting was due to deadlines established by the Illinois Office of the Comptroller that require submission before final information is received from accounting systems that require submission before final information is received from accounting systems and program personnel as well as antiquated accounting systems that do not allow for timely extraction of accurate expenditure data. Although GAAP reporting packages are due by August 27, 2004, final reports from the Programmatic Accounting System were not available until October 13, 2004.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 04-12, 03-13, 02-9)

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **Recommendation:**

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

#### **IDNR Response:**

We disagree. In response to the prior period audit finding, the Department implemented those actions that were submitted by prior management and were accepted as resolving the finding. Most significant being the Department's acquisition of additional resources to deliver 56, not just the 13 packages selected for examination, GAAP fund packages by the due date. Furthermore, the differences characterized as "inaccuracies or problems" are based on data that did not exist and was not available when the packages were due and was collected two or more months after the due dates. Additionally, since GAAP packages are due, in many instances prior to the availability of final financial data, management must make informed estimates of the final figures. Until the timing issue is addressed, GAAP packages will always require adjusting entries, many of which may be substantial.

#### **Auditors' Comment:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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

The findings listed below are located on pages 65 through 186.

| <b>Finding No.</b> | <b>State Agency</b>             | <b>Finding Title</b>  | <b>Finding Type</b>                          |
|--------------------|---------------------------------|---|--|
| 04-13              | IL Department of Human Services | Inadequate Process for Monitoring Interagency Program Expenditures  | Material weakness                            |
| 04-14              | IL Department of Human Services | Unallowable Costs Charged to the TANF Program   | Material noncompliance and material weakness |
| 04-15              | IL Department of Human Services | Failure to Perform Eligibility Re-determinations within Prescribed Timeframes                             | Material noncompliance and material weakness |
| 04-16              | IL Department of Human Services | Failure to Follow and Document TANF Sanction Procedures   | Material noncompliance and material weakness |
| 04-17              | IL Department of Human Services | Unallowable Costs Charged to the Title XX Program   | Material noncompliance and material weakness |
| 04-18              | IL Department of Human Services | Missing Documentation in Client Eligibility Files   | Noncompliance and reportable condition       |
| 04-19              | IL Department of Human Services | Inaccurate Benefit Costs Allocated to Federal Programs  | Noncompliance and material weakness          |
| 04-20              | IL Department of Human Services | Inadequate Controls Over Access to Electronic Benefits Transfer Information Systems                       | Material weakness                            |
| 04-21              | IL Department of Human Services | Failure to Adequately Monitor Expenditures Made By a Subrecipient   | Noncompliance and material weakness          |
| 04-22              | IL Department of Human Services | Untimely Performance of On-Site Reviews and Communication of and Follow Up on On-Site Monitoring Findings | Noncompliance and reportable condition       |
| 04-23              | IL Department of Human Services | Inadequate Peer Review Sampling Methodology   | Noncompliance and material weakness          |
| 04-24              | IL Department of Human Services | Inadequate Documentation of Risk Assessments of Subrecipients   | Reportable condition                         |
| 04-25              | IL Department of Human Services | Unallowable Expenditures Charged to the Vocational Rehabilitation Program                                 | Noncompliance and reportable condition       |

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

|       |   |   |  |
|-------|---|---|--|
| 04-26 | IL Department of Human Services               | Unallowable Expenditures Used to Meet Matching Requirements                                     | Noncompliance and reportable condition       |
| 04-27 | IL Department of Human Services               | Failure to Follow Illinois Procurement Code   | Noncompliance and reportable condition       |
| 04-28 | IL Department of Human Services               | Inadequate Segregation of Duties Over Reporting   | Reportable condition                         |
| 04-29 | IL Department of Public Aid                   | Failure to Enforce Sanctions Over TANF Recipients   | Material noncompliance and material weakness |
| 04-30 | IL Department of Public Aid                   | Inadequate Monitoring of Subrecipients  | Noncompliance and reportable condition       |
| 04-31 | IL Department of Public Aid                   | Inadequate Follow Up With Employers to Identify Third Party Liability (TPL) Insurers            | Noncompliance and reportable condition       |
| 04-32 | IL Department of Public Aid                   | Failure to Properly Perform Non-Custodial Parent Location Procedures                            | Noncompliance and reportable condition       |
| 04-33 | IL Department of Public Aid                   | Failure to Properly Manage and Document Interstate Cases Within KIDS                            | Noncompliance and reportable condition       |
| 04-34 | IL Department of Public Aid                   | Failure to Establish Support Orders Within Required Timeframe                                   | Noncompliance and reportable condition       |
| 04-35 | IL Department of Children and Family Services | Failure to Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes | Material noncompliance and material weakness |
| 04-36 | IL Department of Children and Family Services | Inadequate and Untimely Fiscal Monitoring of Subrecipients                                      | Material noncompliance and material weakness |
| 04-37 | IL Department of Children and Family Services | Failure to Ensure Timely Preparation of Initial Case Plans                                      | Noncompliance and reportable condition       |
| 04-38 | IL Department on Aging                        | Inadequate Monitoring of Subrecipients  | Material noncompliance and material weakness |
| 04-39 | IL Department on Aging                        | Inaccurate Certification of Maintenance of Effort Expenditures                                  | Noncompliance and reportable condition       |
| 04-40 | IL Department of Public Health                | Inadequate Process for Determining Client Eligibility   | Material noncompliance and material weakness |
| 04-41 | IL Department of Public Health                | Inadequate Documentation Supporting Cash Draws  | Scope limitation and material weakness       |

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

|       |                                  |   |  |
|-------|----------------------------------|---|--|
| 04-42 | IL Department of Public Health   | Inadequate Monitoring of Subrecipients  | Material noncompliance and material weakness |
| 04-43 | IL Department of Public Health   | Inadequate Cash Management Procedures for Subrecipients   | Scope limitation and material weakness       |
| 04-44 | IL Department of Public Health   | Insufficient Federal Award Information Provided to Subrecipients  | Noncompliance and reportable condition       |
| 04-45 | IL State Board of Education      | Failure to Implement the Activities Identified in the Comprehensive State Plan  | Adverse and material weakness                |
| 04-46 | IL State Board of Education      | Failure to Determine Eligibility and Maintain Controls and Documentation for Subrecipients  | Adverse and material weakness                |
| 04-47 | IL State Board of Education      | Inadequate On-Site Monitoring of Subrecipients  | Noncompliance and material weakness          |
| 04-48 | IL State Board of Education      | Inaccurate Reporting of the Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report              | Noncompliance and material weakness          |
| 04-49 | IL State Board of Education      | Incomplete Annual Performance Report  | Noncompliance and reportable condition       |
| 04-50 | IL State Board of Education      | Inaccurate Interest Liability Calculation   | Noncompliance and reportable condition       |
| 04-51 | IL State Board of Education      | Untimely Reconciliation of the Automated Standard Application for Payments System and the Management Information Database Accounting System | Material weakness                            |
| 04-52 | IL State Board of Education      | Untimely Review of OMB Circular A-133 Audit Reports   | Reportable condition                         |
| 04-53 | IL Student Assistance Commission | Processing and Submission of Re-insurance Claims  | Adverse and material weakness                |
| 04-54 | IL Student Assistance Commission | Inadequate Process for Assignment of Defaulted Loans  | Noncompliance and reportable condition       |
| 04-55 | IL Student Assistance Commission | Inadequate Controls Over Document Imaging   | Noncompliance and reportable condition       |
| 04-56 | IL Student Assistance Commission | Inaccurate Collection Records   | Noncompliance and material weakness          |

(Continued)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

|       |  |   |  |
|-------|--|---|--|
| 04-57 | IL Community College Board                         | Inadequate On-Site Monitoring of Subrecipients  | Noncompliance and reportable condition       |
| 04-58 | IL Community College Board                         | Failure to Advance Only the Immediate Cash Needs to Subrecipients                                     | Noncompliance and reportable condition       |
| 04-59 | IL Department of Transportation                    | Inadequate Procedures to Ensure Timely Receipt of Contractor Weekly Payroll Certifications            | Noncompliance and reportable condition       |
| 04-60 | IL Department of Transportation                    | Inadequate Cash Management Procedures   | Noncompliance and reportable condition       |
| 04-61 | IL Department of Transportation                    | Inaccurate Interest Liability Calculation   | Noncompliance and reportable condition       |
| 04-62 | IL Department of Transportation                    | Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports                                      | Noncompliance and reportable condition       |
| 04-63 | IL Department of Transportation                    | Failure to Notify Subrecipients of Federal Funding  | Noncompliance and reportable condition       |
| 04-64 | IL Department of Commerce and Economic Opportunity | Inadequate Subrecipient Monitoring Procedures   | Material noncompliance and material weakness |
| 04-65 | IL Department of Employment Security               | Payment of Unemployment Benefits to Ineligible Individuals  | Disclaimer                                   |
| 04-66 | IL Department of Employment Security               | Payment of Benefits to Ineligible Beneficiaries and Missing Documentation in Client Eligibility Files | Material noncompliance and material weakness |
| 04-67 | IL Department of Employment Security               | Inadequate Supporting Documentation for Performance Reports   | Scope limitation and material weakness       |
| 04-68 | IL Department of Employment Security               | Inadequate Cash Management Procedures   | Noncompliance and reportable condition       |
| 04-69 | IL Environmental Protection Agency                 | Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports                                | Noncompliance and reportable condition       |
| 04-70 | IL Environmental Protection Agency                 | Failure to Notify Subrecipients of Federal Funding  | Noncompliance and reportable condition       |

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

|       |                              |   |                                     |
|-------|------------------------------|---|-------------------------------------|
| 04-71 | IL Department of Corrections | Failure to Adequately Establish a Centralized Federal Accounting Function | Noncompliance and material weakness |
|-------|------------------------------|---|-------------------------------------|

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Human Services (IDHS)

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

**Program Name:** Temporary Assistance for Needy Families  
Child Care Cluster  
Social Services Block Grant

**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
93.575 / 93.596 (\$215,793,000)  
93.667 (\$139,053,000)

**Questioned Costs:** None

**Finding 04-13** Inadequate Process for Monitoring Interagency Program Expenditures

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

Federal and state expenditures under the TANF, Child Care, and Title XX programs are comprised of programs operated by various state agencies. As the state agency responsible for administering these programs, IDHS has executed interagency agreements with each of the state agencies expending federal and/or state program funds. The interagency agreements require periodic reporting of a summary of the agency's "allowable" expenditures to IDHS for preparation of the financial reports required for each program. During our testwork we noted the state agencies expending program funds do not determine under which program IDHS reported their expenditures. Additionally, IDHS does not perform monitoring procedures to ascertain that the expenditures claimed meet the specific criteria applicable to the program for which it was claimed. During the year ended June 30, 2004, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF, Child Care, and Title XX programs as follows:

| <b>Program</b> | <b>Expending State Agency</b> | <b>Expenditures Claimed</b> | <b>Total Expenditures</b> |
|----------------|-------------------------------|-----------------------------|---------------------------|
| Federal TANF   | Children and Family Services  | \$168,016,960               | \$499,898,000             |
| Federal TANF   | Student Assistance Commission | \$47,031,912                | \$499,898,000             |
| Federal TANF   | Corrections                   | \$14,482,071                | \$499,898,000             |
| Federal TANF   | Public Aid                    | \$2,120,961                 | \$499,898,000             |
| Federal TANF   | State Board of Education      | \$41,890,483                | \$499,898,000             |
| Federal TANF   | Community College Board       | \$2,488,259                 | \$499,898,000             |

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

|                             |                                   |              |               |
|-----------------------------|-----------------------------------|--------------|---------------|
| TANF MOE                    | Public Aid                        | \$33,929,899 | \$552,218,000 |
| TANF MOE                    | Commerce and Economic Opportunity | \$33,634,189 | \$552,218,000 |
| TANF MOE                    | State Board of Education          | \$56,680,836 | \$552,218,000 |
| TANF MOE                    | Community College Board           | \$4,107,395  | \$552,218,000 |
| TANF MOE                    | Revenue                           | \$13,016,056 | \$552,218,000 |
| Child Care MOE              | Children and Family Services      | \$10,237,320 | \$56,874,000  |
| Social Services Block Grant | Children and Family Services      | \$14,378,678 | \$139,053,000 |

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

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

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program. (Finding Code 04-13, 03-15)

**Recommendation:**

We recommend IDHS review its current process for identifying and reporting interagency expenditures and implement monitoring procedures to ensure that federal and state expenditures expended by other state agencies meet the applicable program regulations and are not claimed or used to meet matching or maintenance of effort requirements under more than one federal program.

**IDHS Response:**

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

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
**Questioned Costs:** \$24,600,000

**Finding 04-14** Unallowable Costs Charged to the TANF Program

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.

The TANF program is comprised of a series of programs designed and operated by each state to address the welfare needs of its residents. In order to be allowable under the TANF program, expenditures must meet one of the following TANF purposes: (1) provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; (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. A State Plan is required to be submitted and approved by USDHHS on a periodic basis to identify the programs the State offers under its TANF program.

During the State fiscal year ended June 30, 2004, IDHS claimed approximately \$24.6 million in expenditures under its TANF program from the Regional Safe Schools program operated by the Illinois State Board of Education. The purpose of the Regional Safe Schools program is to provide an alternative education to Illinois residents who have been expelled from local school districts for behavioral problems.

In accordance with 45 CFR 263.11, TANF program funds are required to be used to meet one of the purposes of TANF as outlined above. Additionally, according to 45 CFR 263.4(b), expenditures on the behalf of eligible families for educational services or activities provided through the public education system do not count 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.

In discussing these conditions with IDHS officials, they stated they still believe that expenditures for Regional Safe Schools meet TANF Goal 3 and A-87 requirements. They believe that Regional Safe Schools is a specific program and not the general types of services normally provided to the general public.

Failure to properly determine the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 04-14, 03-16)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **Recommendation:**

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

#### **IDHS Response:**

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

#### **Auditors' Comment:**

As previously stated, the Regional Safe Schools program is an education program available for all individuals who have been expelled from local school districts for behavior problems. We do not believe the purpose of TANF was to provide funding for broad based educational programs. Additionally, we fail to see a direct correlation between this program and its ability to prevent or reduce out-of-wedlock pregnancies and thus, these expenditures are clearly questionable.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 93.558 (\$499,898,000)
93.767 (\$277,823,000)
93.775 / 93.777 / 93.778 (\$5,653,033,000)

Questioned Costs: Cannot be determined

Finding 04-15 Failure to Perform Eligibility Re-determinations within Prescribed Timeframes

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

Each of the State Plans for the TANF, SCHIP, and Medicaid programs require the State to perform eligibility re-determinations on an annual basis. These procedures typically involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our test work over eligibility, we noted the State, as of August 10, 2004, was delinquent (overdue) in performing the eligibility re-determinations for 7.0%, 9.5%, and 7.3% of individuals receiving benefits under the TANF, SCHIP, and Medicaid programs, respectively, as follows:

Table with 4 columns: Program, Number of Overdue Redeterminations, Total Number of Cases, Percentage of Overdue Cases. Rows include TANF, SCHIP, and Medicaid.

In accordance with 42 CFR section 431.10 and the OMB Circular A-133 Compliance Supplement, dated March 2004, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid, SCHIP, and TANF programs. The current State Plans require re-determinations of eligibility for all recipients on an annual basis.

In discussing these conditions with IDHS officials, they stated while staff shortages have had direct impact on the rate of completion of work, the audit findings are based on a completion rate of 100%.

Failure to properly perform eligibility re-determination procedures in accordance with the state plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 04-15, 03-17)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**Recommendation:**

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

**IDHS Response:**

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



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
**Questioned Costs:** Cannot be determined

**Finding 04-16** *Failure to Follow and Document TANF Sanction Procedures*

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

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to assist the State in establishing paternity or establishing, modifying, or enforcing child support orders by providing information to the Illinois Department of Public Aid (IDPA) to help identify and locate non-custodial parents. In the event a TANF beneficiary fails to assist IDPA without good cause, IDHS is required to reduce or deny his/her TANF benefits.

During our test work over the Child Support Non-Cooperation Special Test of the TANF program, we selected 30 Child Support cases referred by IDPA for non-cooperation without good cause. We noted the following exceptions during our testwork:

- In four cases, IDHS did not sanction beneficiaries for non-cooperation. There was no evidence in these case files documenting that good cause existed for non-cooperation. Benefits paid to these individuals during the year ended June 30, 2004 were \$8,861.
- In two cases, IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with IDPA. Upon further discussions with IDHS and IDPA management, we noted the process for identifying individuals who did not cooperate with IDPA was suspended during the period May 13, 2004 through September 30, 2004, and as a result, approximately 3,712 cases were not evaluated to determine whether sanctions were required during this period. Benefits paid to these individuals during the period from May 13 to June 30, 2004 were \$504,466. Benefits paid to these individuals during the period from July 1 to September 30, 2004 were \$1,784,184.

In accordance with 45 CFR section 264.30(c), if the State determines a beneficiary is not cooperating with child support enforcement efforts without good cause, the State must take appropriate action by deducting an amount equal to at least 25% of the family's assistance payment or denying the family any assistance under the program.

In discussing these conditions with IDHS officials, they stated they disagree with the finding.

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Failure to sanction beneficiaries for non-cooperation with Child Support Enforcement efforts in accordance with the provisions of the State Plan may result in the overpayment of TANF benefits or payment of TANF benefits to ineligible individuals, which are unallowable costs. (Finding Code 04-16, 03-21)

#### **Recommendation:**

We recommend IDHS review its current process for sanctioning beneficiaries not cooperating with the State's child support enforcement efforts and consider changes necessary to ensure benefits are reduced or denied in accordance with the State Plan.

#### **IDHS Response:**

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

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

The second dot point finding indicates there were approximately 3,712 cases which were not evaluated to determine whether a sanction was required during this period. Of the 3,712 cases there were 2,215 cases affected during the time frame from May 13, 2004 through June 30, 2004, by the re-engineered process that were within the audit period. The benefits paid for these cases from the date the 1611 was generated to the end of the audit period totaled \$504,466.

The auditors requested an additional dollar amount of TANF benefits paid for the period of July 1, 2004 through September 30, 2004 for the 3,712 cases affected by the re-engineered process. Twenty-two hundred and fifteen (2,215) of the 3,712 case were from the audit period that ended June 30. Benefits paid on behalf

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

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

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

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

#### **Auditors' Comment:**

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

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

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to determine good cause existed without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures.

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**State Agency:** Illinois Department of Human Services (IDHS)

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

**Program Name:** Social Services Block Grant

**CFDA # and Program Expenditures:** 93.667 (\$139,053,000)

**Questioned Costs:** \$6,569,720

**Finding 04-17** Unallowable Costs Charged to the Title XX Program

Adequate supporting documentation did not exist to substantiate that expenditures claimed by IDHS met the earmarking requirement for the Social Services Block Grant (Title XX) program.

During the State fiscal year ended June 30, 2004, IDHS transferred \$34 million from the TANF program to the Title XX program. Funds transferred from TANF are required to be used only for programs and services to children or their families whose income is less than 200% of the official poverty guidelines. The expenditures used by IDHS to meet the earmarking requirement are for services provided to children and families served by IDHS under its Early Intervention and Home Services programs. As the eligibility criteria for these programs are less stringent than the TANF requirements, IDHS specifically identified expenditures for individuals or families meeting the TANF requirements.

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

In accordance with 42 USC 604 (d)(3)(B), the State shall use all of the amount transferred in from TANF only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revise annually by USDHHS.

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

Failure to allocate indirect costs with an approved cost allocation methodology results in the claiming of unallowable costs. (Finding Code 04-17, 03-18, 02-22)

**Recommendation:**

We recommend IDHS implement procedures to ensure (1) only direct expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed or (2) only an approved cost allocation methodology is used to allocate indirect costs.

**IDHS Response:**

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Disagree. IDHS still believes that appropriate expenditures can be directly traced to services for children who are below the 200% of poverty threshold. In addition, this same rate methodology has been approved for Medicaid and is in the Medicaid State Plan. It is also used for the Idea-Part C grant. IDHS believes that this is an appropriate application of the federal government's cost consistency criteria contained in OMB Circular A-87. We expect a federal review of our process.

**Auditors' Comment:**

We believe that IDHS is improperly treating these expenditures as direct costs similar to "fee for service". The allocation methodology results in significant changes in the amount claimed per individual each month which inhibits their ability to directly link an eligible individual with the amount claimed for reimbursement.

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
State Children's Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
93.767 (\$277,823,000)  
93.775 / 93.777 / 93.778 (\$5,653,033,000)

**Questioned Costs:** Cannot be determined

**Finding 04-18** Missing Documentation in Client Eligibility Files

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

During our test work of TANF, SCHIP, and Medicaid beneficiary payments, we selected 90 eligibility files (30 for each program) to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our testwork:

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

In each of the case files missing documentation, each of the eligibility criteria, with the exception of the income criteria was verified through additional supporting documentation in the client's paper and electronic case files. The income information used for income calculations was available in Automated Wage Verification System. 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.

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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 CFR section 431.10 and the OMB Circular A-133 Compliance Supplement, dated March 2004, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for Medicaid, SCHIP, and TANF. The current State Plans require re-determinations of eligibility for all Medicaid and TANF recipients on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid program.

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

Additionally, 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 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. In addition, we recommend IDHS review its process for determining TANF benefits and consider changes necessary to ensure all benefit calculations are adequately supported and documented.

#### **IDHS Response:**

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



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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Education (USDE)  
US Department of Health and Human Services (USDHHS)  
US Social Security Administration (USSSA)

**Program Name:** Food Stamps Cluster  
Special Supplemental Nutrition Program for Women, Infants, and Children  
Rehabilitation Services – Vocational Rehabilitation Grants to States  
Temporary Assistance for Needy Families  
Child Care Cluster  
Social Services Block Grant  
Block Grants for Prevention and Treatment of Substance Abuse  
Social Security Disability Insurance

**CFDA # and Program Expenditures:** 10.551/10.561 (\$1,255,122,000)  
10.557 (\$174,100,000)  
84.126 (\$93,313,000)  
93.558 (\$499,898,000)  
93.575 / 93.596 (\$215,793,000)  
93.667 (\$139,053,000)  
93.959 (\$64,128,000)  
96.001 (\$61,282,000)

**Questioned Costs:** Cannot be determined

**Finding 04-19** *Inaccurate Benefit Costs Allocated to Federal Programs*

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

IDHS administers several federal and state programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS 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, IDHS has submitted a PACAP to the USDHHS 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 IDHS. IDHS has developed the methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

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

- The life insurance expenditures allocated for employees paid out of a fund other than the General Revenue Fund (GRF) included both the amount paid on the behalf of the employee and the amount of the premium paid for a GRF employee. This error resulted in IDHS over claiming group insurance.

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- The dental insurance expenditures allocated for employees paid out of GRF were the employee paid portion only. As the employee paid portion is less than the State paid portion of the premium, IDHS has under claimed its dental insurance expenditures.

As of the date of our report, IDHS has not been able to quantify the impact of the errors noted above in the aggregate or on a program basis as such, the questioned costs cannot be determined.

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 be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented. 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.

In discussing these conditions with IDHS officials, they stated there was a problem with the payroll download. The payroll download incorporated the General Revenue Fund (GRF) employee paid dental amounts rather than the employer paid dental amounts for 2004 pay periods 1 through 7. Also, the access database included a group insurance field from the payroll download for non-GRF staff that included two amounts for life insurance. The field incorrectly included the state paid life amount for GRF staff in addition to the life reimbursement amount that is included in the group insurance for non-GRF staff.

Failure to accurately accumulate costs for allocation through the PACAP may unallowable expenditures being charged to federal programs. (Finding Code 04-19)

#### **Recommendation:**

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

#### **IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)

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

**Program Name:** Food Stamps Cluster  
Temporary Assistance for Needy Families

**CFDA # and Program Expenditures:** 10.551/10.561 (\$1,255,122,000)  
93.558 (\$499,898,000)

**Questioned Costs:** None

**Finding 04-20** *Inadequate Controls Over Access to Electronic Benefits Transfer Information Systems*

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

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

As a condition of performing the EBT services, the vendor is required to have an independent review of the design and operating effectiveness of the EBT program internal controls completed. During our review of the auditors' report on controls placed in operation and tests of operating effectiveness for IDHS' EBT program during the nine month period ended June 30, 2004, we noted the report included a qualification relative to the access controls in place for the payment processing application and information database which is used to process electronic food stamps and other benefits for program participants. The auditors' report noted the vendor normally grants access to the production system based on an individual's job responsibilities; however, the vendor did not restrict the access of a developer responsible for settlement operations, application software, and database support to the application production environment. The access granted allowed the developer to install software, implement changes in the production environment, and resolve production problems which does not provide an adequate segregation of duties for authorizing, testing, approving, implementing, and documenting changes to information systems. Beneficiary payments made through the EBT program were approximately \$1.2 billion and \$110 million for the Food Stamps Cluster and TANF program, respectively, during the year ended June 30, 2004.

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.

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

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Failure to adequately segregate duties by restricting user access in accordance with established policies and procedures may result in unauthorized changes being made to information systems which may not be detected. (Finding Code 04-20)

**Recommendation:**

We recommend IDHS ensure an adequate segregation of duties has been established relative to those individuals responsible for authorizing, testing, approving, implementing, and documenting changes to the information systems used in its EBT program.

**IDHS Response:**

Agree. The subcontractor's access was removed on May 15, 2004 and will not be allowed again. Access controls have been effective since that date.

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
**Questioned Costs:** Cannot be determined

**Finding 04-21** *Failure to Adequately Monitor Expenditures Made By a Subrecipient*

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

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

Additionally, subsequent to the end of the State's fiscal year, the subrecipient adjusted the expenditures originally reported to IDHS, which reduced the expenditures originally reported by approximately \$3 million. The adjustment was required because the expenditures reported had been claimed by the subrecipient under more than one federal program.

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 IDHS officials, they stated they worked with the subrecipient and their consultant to ensure allowable services were provided to eligible families in accordance with TANF regulations and contract requirements. IDHS officials also stated they conducted a fiscal review of the subrecipient's single audit. A program monitoring review was not conducted in fiscal year 2004.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 04-21)

**Recommendation:**

We recommend IDHS review its monitoring procedures and implement the changes necessary to ensure adequate monitoring procedures are performed for all subrecipients.

**IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Education (USDE)  
US Department of Health and Human Services (USDHHS)

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

**CFDA # and Program Expenditures:** 10.557 (\$174,100,000)  
84.126 (\$93,313,000)  
93.558 (\$499,898,000)  
93.575 / 93.596 (\$215,793,000)  
93.667 (\$139,053,000)  
93.959 (\$64,128,000)

**Questioned Costs:** None

**Finding 04-22** Untimely Performance of On-Site Reviews and Communication of and Follow Up on On-Site Monitoring Findings

IDHS did not communicate or follow up on findings from its on-site fiscal monitoring reviews for subrecipients of the Special Supplemental Nutritional Program for Women, Infants, and Children (WIC), Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Temporary Assistance for Needy Families (TANF), Child Care Cluster, Social Services Block Grant (Title XX) or Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs in a timely manner.

IDHS has implemented procedures whereby the program and fiscal staff perform periodic on-site reviews of IDHS subrecipient compliance with state and federal regulations applicable to the 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.

During our testwork of 135 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX, and SAPT programs, we noted the following:

- 41 subrecipients were not notified of findings relative to the program reviews within 60 days. Findings were not reported for timeframes ranging from 65 to 245 days after the end of the on-site review.
- Nine subrecipients did not submit corrective action plans for program reviews as of the end date of our fieldwork. Additionally, we noted no evidence of follow up by IDHS relative to the missing plans.

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In addition, during our testwork of expenditures to subrecipients of the Vocational Rehabilitation, TANF, Title XX, Child Care Cluster, and SAPT programs, we noted 150 subrecipients for whom on-site program reviews have not been performed within the last three years.

| Program                   | Number of Subrecipients Without On-Site Reviews | Range of Years Since Last On-Site Review | Related Expenditures | Total Fiscal Year 2004 Subrecipient Expenditures | Total Fiscal Year 2004 Program Expenditures |
|---------------------------|---|--|----------------------|--|---|
| Vocational Rehabilitation | 138   | None performed                           | \$10,285,000         | \$21,936,000                                     | \$93,313,000                                |
| TANF                      | 3   | None performed                           | \$11,373,388         | \$92,594,000                                     | \$499,898,000                               |
| Title XX                  | 1   | 5  | \$257,228            | \$79,536,000                                     | \$139,053,000                               |
| Child Care                | 7   | 3 to 5                                   | \$2,101,000          | \$188,892,000                                    | \$215,793,000                               |
| SAPT                      | 1   | None performed                           | \$2,770,129          | \$60,713,000                                     | \$64,128,000                                |

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.

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

Failure to notify subrecipients of findings and receive corrective action plans in a timely manner may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. Additionally, failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 04-22, 03-24, 02-24)

**Recommendation:**

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

**IDHS Response:**

Agree. IDHS will develop appropriate uniform monitoring protocols.



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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Block Grants for Prevention and Treatment of Substance Abuse  
**CFDA # and Program Expenditures:** 93.959 (\$64,128,000)  
**Questioned Costs:** None

**Finding 04-23** *Inadequate Peer Review Sampling Methodology*

IDHS does not have an adequate process for selecting cases for its peer reviews of service providers under the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

IDHS is required to perform peer reviews of SAPT service providers in order to assess the quality, appropriateness, and effectiveness of treatment services provided to individuals (i.e. program beneficiaries). The purpose of IDHS' peer review is to ensure the provider's administrative and clinical policies and procedures are appropriate considering the objectives of the program and that the provider consistently applies its policies and procedures. As part of the peer review process, a sample of the provider's client case records are evaluated by an independent reviewer to ensure the treatment prescribed and/or provided was appropriate given the client's case and medical histories.

During our review of the sampling procedures used to select client case files for the peer review of SAPT service providers, we noted IDHS requested the service providers being reviewed to select the sample of case files. As a result, the cases evaluated during the peer reviews were not independently selected by IDHS and may not be representative of the population of clients served by the providers.

According to 45 CFR part 96.136(d), the State is required to review a representative sample of patient/client records to assess the quality and appropriateness of treatment services as part of its peer review process.

In discussing these conditions with IDHS officials, they stated in response to the fiscal year 2003 finding that the sample selection process could not be implemented until fiscal year 2005.

Failure to select an independent representative sample of client case records for review may result in an ineffective peer review process which does not identify deficiencies in patient treatment and provider case management. (Finding Code 04-23, 03-25)

**Recommendation:**

We recommend IDHS revise its peer review sampling procedures to require the independent reviewer to select a representative sample of client/beneficiary case files for review.

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**IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Education (USDE)  
US Department of Health and Human Services (USDHHS)

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

**CFDA # and Program Expenditures:** 10.557 (\$174,100,000)  
84.126 (\$93,313,000)  
93.558 (\$499,898,000)  
93.575 / 93.596 (\$215,793,000)  
93.667 (\$139,053,000)  
93.959 (\$64,128,000)

**Questioned Costs:** None

**Finding 04-24** *Inadequate Documentation of Risk Assessments of Subrecipients*

IDHS is not adequately documenting risk assessments of subrecipients.

The Office of Contract Administration (OCA) of IDHS performs on-site monitoring reviews of subrecipients to ensure that they are fiscally capable of administering federal programs. IDHS has implemented a risk-based approach for selecting subrecipients for on-site monitoring reviews. A risk assessment is performed for each subrecipient who received \$300,000 or more of funding from IDHS and is primarily based upon information in the Fiscal/Administrative Review checklist submitted by each subrecipient. The checklist includes approximately 120 (yes/no) questions relating to internal controls and procedures pertaining to general accounting, cash receipts, cash disbursements, bank reconciliations, purchasing, payroll, property and equipment, state and federal grants, fee for service programs, interest earned on grant funds, and fiduciary funds. Of the 120 questions, management of IDHS has identified 30 which they believe may indicate higher risk. Accordingly, OCA has defined a higher risk subrecipient as an entity in which responses to ten or more of the 30 questions indicate higher risk. The responses to the targeted 30 questions are entered into a database which serves as documentation of the completed official risk assessments. In addition to the Fiscal/Administrative checklist, IDHS considers other risk assessment criterion including: the level of IDHS funding, the length of time since the last review, and referrals from program staff or other sources. Subrecipients who are determined to be high risk are placed on a "High Risk Listing" which serves as the basis for scheduling on-site monitoring reviews.

During our review of 135 subrecipients of the Special Supplemental Nutrition Programs for Women, Infants, and Children, Rehabilitation Services – Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families, Child Care Cluster, Social Services Block Grant, and Block Grants for Prevention and Treatment of Substance Abuse programs, we noted IDHS was in the process of amending its risk assessment

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

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. Good internal controls require that risk assessments be adequately documented.

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

Failure to properly document risk assessments could result in an ineffective on-site monitoring review process in which higher risk subrecipients are not (1) appropriately identified and/or (2) subject to established on-site monitoring reviews requirements, and lower risk subrecipients are (1) not appropriately identified and/or (2) are unnecessarily subjected to an on-site review. (Finding Code 04-24, 03-23)

#### **Recommendation:**

We recommend IDHS implement procedures to ensure risk assessments are documented for each subrecipient.

#### **IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Rehabilitation Services – Vocational Rehabilitation Grants to States

**CFDA # and Program Expenditures:** 84.126 (\$93,313,000)

**Questioned Costs:** \$34,635

**Finding 04-25** Unallowable Expenditures Charged to the Vocational Rehabilitation Program

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

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

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

In accordance with Section 102(a)(6) of the Rehabilitation Act, IDHS is required to determine client eligibility within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for benefits unless one of the criteria for an extension has been met. Additionally, according to 34 CFR 361.48(g) and 34 CFR 361.5(b)(35), monetary support provided to an individual for expenses, including food, shelter, and clothing, are allowable if they are in excess of the normal expenses of the individual and are necessitated by the individual's participation in the program.

In discussing these conditions with IDHS officials, they stated that staffing shortages affected the completion of paperwork required for the eligibility determination process prior to authorizing the services to these two clients. While this is definitely not permitted, the services were not authorized prior to staff being certain the customer was eligible. Regarding the other case, IDHS staff believed they had the authority per the Illinois Administrative Code, Title 89, Chapter IV, Part 590, Subpart J, Maintenance to provide an exception which was documented in the case folder. This cite states that "exceptions to this Subpart shall be granted by the appropriate Bureau Chief of DHS-ORS. Requests for exceptions must be in writing and explain and justify increased costs above those established by this Part."

Failure to establish a beneficiary's eligibility within the required timeframes may result in expenditures being made to or on the behalf of ineligible beneficiaries, which are unallowable costs. Additionally, failure to

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properly determine the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 04-25)

#### **Recommendation:**

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

#### **IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Rehabilitation Services – Vocational Rehabilitation Grants to States  
**CFDA # and Program Expenditures:** 84.126 (\$93,313,000)  
**Questioned Costs:** \$47,276

**Finding 04-26** Unallowable Expenditures Used to Meet Matching Requirements

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

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

In accordance with 34 CFR 80.24(a)(1), costs used to meet matching requirements must be allowable under the program regulations. In addition, 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 be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented.

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

Failure to properly determine the allowability of costs in accordance with program regulations may result in unallowable costs being used to meet the matching requirements of federal programs. (Finding Code 04-26)

**Recommendation:**

We recommend IDHS implement procedures to ensure only expenditures meeting allowable cost criteria are used to meet federal program matching requirements.

**IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Rehabilitation Services – Vocational Rehabilitation Grants to States  
**CFDA # and Program Expenditures:** 84.126 (\$93,313,000)  
**Questioned Costs:** Cannot be determined

**Finding 04-27** *Failure to Follow Illinois Procurement Code*

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

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

In accordance with 34 CFR 80.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Section 20-80(b) of the Illinois Procurement Code (30 ILCS 500) requires a copy of the written determination (i.e. contract, purchase order, grant, or lease agreement) for obligations exceeding \$10,000 to be filed with the Comptroller within 15 days of its execution. Section 20-5 of the Illinois Procurement Code (30 ILCS 500) requires all State contracts greater than \$25,000 to be awarded by competitive sealed bidding unless otherwise approved by the State Procurement Officer. Additionally, section 20-20(a) of the Illinois Procurement Code (30 ILCS 500) prohibits artificially dividing purchases to constitute a small purchase (defined as less than \$25,000).

In discussing these conditions with IDHS officials, they stated they interpreted the Code and the Comptroller's directives to mean that a series of small purchases that were made randomly through out the year did not need to be bid since no one purchase exceeded the small purchase threshold.

Failure to follow the Illinois Procurement Code may result in violations of federal procurement regulations and the loss of federal funding. (Finding Code 04-27)

**Recommendation:**

We recommend IDHS implement procedures to ensure that all procurements are performed in accordance with the applicable rules and regulations.



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**IDHS Response:**

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

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Rehabilitation Services – Vocational Rehabilitation Grants to States  
**CFDA # and Program Expenditures:** 84.126 (\$93,313,000)

**Questioned Costs:** None

#### **Finding 04-28** *Inadequate Segregation of Duties Over Reporting*

IDHS does not have an adequate segregation of duties in place relative to the compilation and review of the annual RSA-2 Program Cost Report.

The RSA-2 Program Cost Report details program expenditures by type (i.e. administrative, services provided to individuals with disabilities, and services provided to groups of individuals with disabilities) and by number of individuals served. This report is used by the USDE to identify the number of individuals served and the types of services provided or purchased by the State.

During our review of the process for preparing and submitting the annual RSA-2 Program Cost Report, we noted the same individual is responsible for the compilation, review, approval, and submission of the report. An independent supervisory review of the report is not performed by anyone other than the preparer.

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 a supervisory review of all reports prepared and filed with a federal agency.

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

An inadequate segregation of duties may result in inaccurate reporting which may prevent USDE from properly monitoring and evaluating the performance of the program. (Finding Code 04-28, 03-26)

#### **Recommendation:**

IDHS should implement procedures to require an independent review of the report and supporting schedules from a person knowledgeable of the reporting requirements prior to submission of the report.

#### **IDHS Response:**

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

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**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
**Questioned Costs:** Cannot be determined

**Finding 04-29** *Failure to Enforce Sanctions over TANF Recipients*

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

IDPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parents, to locate absent parents, establish paternity, and obtain child and spousal support. In situations where a parent is non-cooperative in establishing paternity and also receiving TANF benefits, IDPA is required to refer the case to IDHS for sanctions (reduction or elimination) of their TANF benefits. We sampled a selection of 30 TANF cases that should have been referred to IDHS by IDPA for non-cooperation in establishing paternity. We reviewed the case files to ensure that the case was referred to IDHS and IDHS took the proper course of action to either sanction or solicit cooperation from the TANF recipient with respect to paternity establishment.

In the 30 cases reviewed, we noted the following:

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

Per 45 CFR 264.30 and 264.31, the State agency, who is responsible for administering Title IV-D of the Social Security Act and Child Support Enforcement for TANF must assist with the paternity establishment process though sanctioning the related TANF cases in an attempt to promote cooperation of the parent. If the State finds that the individual is not cooperating in establishing paternity, or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance.

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

Failure to enforce sanctions against non-cooperative parents results in the overpayment of TANF benefits. (Finding Code 04-29)

#### **Recommendation:**

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

#### **IDPA Response:**

The Department does not agree with this finding. The Department delayed referral of cases impacted by transition to a new intake process until a proper evaluation determined the cases to be non-cooperative. Upon such determination, the Department promptly referred all cases to IDHS to enable initiation of the sanction enforcement process. The transition period has ended and the new intake process continues to ensure that all TANF recipients who are non-cooperative are referred to IDHS for proper sanctions.

#### **Auditors' Comment:**

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

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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775 / 93.777 / 93.778 (\$5,653,033,000)

**Questioned Costs:** None

**Finding 04-30** *Inadequate Monitoring of Subrecipients*

IDPA is not adequately monitoring subrecipients of the Medicaid Cluster.

IDPA passed through approximately \$95,540,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2004 to assist IDPA in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. IDPA's subrecipient monitoring process includes (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing on-site reviews of subrecipient operations; and (5) performing desk reviews of single audit reports. However, during our review of the monitoring procedures performed by IDPA for 30 subrecipients, we noted the following:

- On a quarterly basis, LEA's are required to submit electronic claim data to support amounts claimed for reimbursement. The quarterly claims are subject to data analysis performed by the claims system. In order to identify erroneous claims data, an exception report is generated from the data analysis which details all claims which are outside parameters set by IDPA. However, during our review of the claims selection process used by IDPA, we noted the rationale for claims selection was not documented, nor were all claims identified on the exception report selected for further review procedures. Additionally for the reviews that had been performed, the specific procedures performed were not documented, nor were adjustments identified during the review made in a timely manner.
- There are no comprehensive procedures for performing on-site reviews during the year ended June 30, 2004.

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

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.

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 04-30, 03-30)

**Recommendation:**

We recommend IDPA:

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

#### **IDPA Response:**

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

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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775 / 93.777/ 93.778 (\$5,653,033,000)

**Questioned Costs:** None

**Finding 04-31** *Inadequate Follow Up With Employers to Identify Third Party Liability (TPL) Insurers*

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

IDPA has developed a number of methods for identifying third party insurers who may be liable for medical payments made on the behalf of a Medicaid beneficiary. The method, which has the greatest potential for identifying third party insurers, includes performing a data match with the Illinois Department of Employment Security to identify Medicaid beneficiaries who are employed and who have earned wages in excess of \$5,000. When a potential employer for a beneficiary is identified by the quarterly match, IDPA sends a letter to the employer requesting information related to the existence of employer provided health insurance. When a response is received from an employer indicating the existence of a potential third party insurer, the information is input to the Medicaid Management Information System (MMIS).

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

42 CFR sections 433.135 through 433.154 require the State to have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third party resources should be exhausted prior to paying claims with program funds. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought.

In discussing these conditions with IDPA, they stated that the limited staff resources were better utilized by concentrating their efforts on other areas of identifying third party insurers and maintaining the accuracy of the MMIS TPL database. The employed recipient match to which the recommendation refers is not a mandated TPL activity under 42 CFR 433.135 through 433.154. The match is one of ten or more mechanisms used by TPL to identify potential third party resources. Illinois employers have no legal obligation (state or federal) to respond to TPL's inquiries regarding possible employer-provided health insurance coverage.

Failure to identify third parties liable for medical services paid on the behalf of a Medicaid beneficiary may result in expenditures charged to the Medicaid program for which reimbursement is not sought. (Finding Code 04-31, 03-28, 02-14, 01-03)

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#### **Recommendation:**

We recommend IDPA implement procedures for tracking, investigating, and reviewing employer information request responses to ensure all potential third party insurers from whom potential reimbursement should be available are identified.

#### **IDPA Response:**

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

#### **Auditors' Comment:**

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



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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563 (\$102,462,000)

**Questioned Costs:** None

**Finding 04-32** *Failure to Properly Perform Non-Custodial Parent Location Procedures*

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

IDPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by a non-custodial parent, to locate the absent parent, establish paternity, and obtain child and spousal support. When an initial referral or application for services under this program has been received, IDPA opens a case record in KIDS and assesses the information received to determine if all necessary information has been received to begin location procedures. If IDPA determines additional information is required from the custodial parent to begin location services, a request is made to schedule an interview with the custodial parent.

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

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

According to 45 CFR 303.2(b), within 20 calendar days of the receipt of a referral of a case or an application for services the State IV-D agency must open a case and determine necessary action, including to solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information. If there is inadequate location information to proceed with the case, the Title IV-D agency must request additional information or refer the case for further location attempts. According to 45 CFR 303.3(b)(3), within no more than 75 calendar days of determining that location is necessary, the State IV-D agency must access all appropriate location sources, including transmitting appropriate cases to the Federal Parent Locator Service, and ensure that location information is sufficient to take the next appropriate action in a case.

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

Failure to conduct interviews and properly perform parent location procedures could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 04-32, 03-29, 02-15, 01-04)

#### **Recommendation:**

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

#### **IDPA Response:**

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

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563 (\$102,462,000)

**Questioned Costs:** None

**Finding 04-33** *Failure to Properly Manage and Document Interstate Cases Within KIDS*

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

The Child Support Enforcement program requires the State to provide additional support services related to cases in which the child and custodial parent live in one state and the non-custodial parent lives in another state. IDPA has established an interstate central registry, which is charged with the responsibilities of initiating and responding to interstate case requests and documenting related information in KIDS. The interstate central registry's responsibilities relative to interstate cases are different depending on whether the interstate case is an initiating or responding case.

In initiating cases, the custodial parent and child are living in Illinois and the non-custodial parent resides in another state. IDPA is required to:

- refer the case to the appropriate responding state within twenty calendar days of determining the non-custodial parent lives in another state;
- provide the responding state sufficient and accurate information to act on the case;
- provide additional information to the responding state as requested or notify the responding state when requested information will be provided within thirty calendar days of receipt of the request;
- notify the responding state of any new information obtained within ten working days of receipt; and
- request reviews of child support orders by other states within twenty days of determining a review by the other state should be requested.

In responding cases, the non-custodial parent lives in Illinois and the custodial parent and child live in another state. IDPA is required to:

- provide location services, notify the initiating state if inadequate documentation has been provided, and process the case to the extent possible if documentation is inadequate within 75 calendar days;
- forward the documentation to the appropriate jurisdiction or state, if the non-custodial parent is located in another jurisdiction or state, and notify the initiating state of actions within 10 working days of locating the non-custodial parent;
- provide child support services including establishing obligations, processing and enforcing orders, collecting and monitoring support orders, reviewing and adjusting support orders in accordance with intrastate child support case timeframes;
- provide notice of formal hearings to the initiating state in a timely manner;
- notify the initiating state of any new information within ten working days of receipt;
- notify the initiating state when the case is closed.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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

- Two initiating cases (7%) were not referred to the responding state within the twenty day federal timeframe after IDPA had determined the non-custodial parent was located in another state. The delays in referring these cases were 88 and 70 days after the required federal timeframe.
- Four initiating cases (13%) did not contain sufficient documentation within the KIDS system to determine if proper actions had been taken within the required timeframe.
- One responding case (3%) did not contain sufficient documentation within the KIDS system to determine if proper actions had been taken within the required timeframe.

According to 45 CFR 303.7, the State IV-D agency must provide the appropriate child support services needed for interstate cases and meet the related required timeframes pertaining to the child support service provided.

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

Failure to (1) properly manage interstate child support cases and (2) accurately and adequately document case activity may result in IDPA failing to provide required and appropriate child support services. (Finding Code 04-33, 03-32, 02-19, 01-08)

#### **Recommendation:**

We recommend IDPA follow procedures established to ensure initiating interstate cases are properly referred to the responding state and to provide accurate and adequate documentation of its actions, determinations, and communications related to responding cases.

#### **IDPA Response:**

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

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563 (\$102,462,000)

**Questioned Costs:** None

**Finding 04-34** *Failure to Establish Support Orders Within Required Timeframe*

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

IDPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parent, to locate absent parents, establish paternity, and obtain child and spousal support. During our testwork of 30 child support cases, we noted six cases (20%) in which IDPA did not initiate support order procedures within the federally prescribed 90-calendar day timeframe. Delays in establishing support orders ranged from 17 to 239 days in excess of the 90 calendar day requirement. Additionally, we noted support orders have never been established in two cases (7%). We further noted unsuccessful attempts to serve process in accordance with the State's diligent efforts requirement were not documented for these cases.

According to 45 CFR 303.4(d), the State IV-D agency must establish a support order or complete service of process necessary to commence proceedings to establish a support order and, if necessary paternity (or document unsuccessful attempts to serve process, in accordance with the State's guidelines defining diligent efforts within 90 calendar days of locating the non-custodial parent).

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

Failure to properly establish a support order or document unsuccessful attempts to establish the support order could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 04-34)

**Recommendation:**

We recommend IDPA follow procedures established to ensure support orders are established within the required timeframes and ensure failed attempts to establish support orders are adequately documented.

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**IDPA Response:**

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

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For the Year Ended June 30, 2004

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

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

**Program Name:** Foster Care Title IV-E

**CFDA # and Program Expenditures:** 93.658 (\$302,292,000)

**Questioned Costs:** \$4,254

**Finding 04-35** *Failure To Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes*

DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes.

DCFS is required to prepare a “permanency plan” for each child in the Foster Care program which includes goals for placement of the child in a permanent living arrangement, which may include reunification, adoption, legal guardianship, placement with a fit and willing relative, or placement in another planned permanent living arrangement. This plan must also include the services that DCFS expects to perform to achieve these goals. Currently, each child’s permanency plan is reviewed on a periodic basis at a permanency hearing which serves as the judicial determination that reasonable efforts to finalize the permanency plan have been made.

During our testwork over 50 case files of the Foster Care program, we noted permanency hearings were not performed within the required timeframe for two of the beneficiaries tested. The delays in performing the permanency hearings for these cases were 154 days and 365 days after the required timeframe rendering these beneficiaries ineligible until the permanency hearing was held. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of the two beneficiaries during the “period of ineligibility” totaling \$4,254. Additionally, DCFS does not have an adequate process in place to ensure permanency hearings were completed within required timeframes for all beneficiaries or to identify beneficiaries for whom permanency hearings had not been conducted.

According to 45 CFR 1356.21(b), the State agency must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is in effect within twelve months of the date the child is considered to have entered foster care and at least once every twelve months thereafter while the child is in foster care. If such a judicial determination regarding reasonable efforts is not made in accordance with these requirements, the child becomes ineligible under Title IV-E at the end of the month in which the judicial determination was required to have been made and remains ineligible until such a determination is made.

In discussing these conditions with DCFS officials, they state the delays being experienced, as indicated in the sample, may be attributed in part to one or more court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used. The origin of these delays was a result of a federal requirement for specific language for permanency hearings, which required further clarification by ACF, and resulted in confusion as to the timeframe specifics of those requirements.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

Failure to ensure permanency hearings are completed in a timely manner may result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 04-35, 03-33, 02-29)

#### **Recommendation:**

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

#### **DCFS Response:**

The Department agrees and has developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of hearings and reviews for permanency hearings. The Department will continue to work with Illinois Court system to ensure permanency hearings meet the federal requirements.

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

In August 2004, staff from the Central and Regional Offices of the Administration for Children and Families (ACF) and DCFS conducted an eligibility review of the Illinois Title IV-E Foster Care program. The review identified only four error cases and two ineligible payment cases. Therefore, because less than five cases were in error, ACF determined that the Illinois Title IV-E Foster Care maintenance program is in substantial compliance with the Federal child and provider eligibility requirements for the period under review. Because Illinois was found to be in substantial compliance, a secondary review will not be required. The next primary review must be held in three years.



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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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

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

**Program Name:** Temporary Assistance for Needy Families  
Foster Care Title IV-E  
Adoption Assistance  
Social Services Block Grant

**CFDA # and Program Expenditures:** 93.558 (\$499,898,000)  
93.658 (\$302,292,000)  
93.659 (\$78,999,000)  
93.667 (\$139,053,000)

**Questioned Costs:** None

#### **Finding 04-36** *Inadequate and Untimely Fiscal Monitoring of Subrecipients*

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.

In our sample of 50 subrecipient monitoring files out of a total of 108 subrecipients (totaling \$32,112,000 of \$121,307,000 in total subrecipient expenditures), we noted the following:

- Ten subrecipients had submitted their required audit reports (OMB Circular A-133, financial statement, program-specific) after the 180-day deadline. These files contained no documentation of an extension of the timeframe requirement by DCFS.
- Eight subrecipient files did not evidence the receipt of an A-133 report or follow up with the subrecipient by DCFS personnel.
- Sixteen subrecipient audit reports were reviewed in excess of 60 or more days after their receipt. The time elapsed between the receipt and review of these reports ranged from 63 to 80 days.

Additionally, DCFS is not performing on-site monitoring visits to review internal controls or the fiscal and administrative capabilities of its subrecipients. We noted none of the 50 subrecipients selected for testwork had been subject to a fiscal on-site review within the last three years.

Per OMB Circular A-133 Compliance Supplement, dated March 2004, 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 state procedures are in place to notify subrecipients of audit requirements, track the receipt of all required audits, to ensure all required components are received, and to follow-up on all audits that are not received within the required time frame. Additional audit reports are received from those agencies receiving Department funding at a level under the DCFS audit requirement threshold and the federal A-133 audit threshold. However, through federal funding from other sources these

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

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 04-36, 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

#### **Recommendation:**

We recommend DCFS implement procedures to ensure:

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

Additionally, we recommend that DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should also consider revising its on-site monitoring policy for federal programs to use a risk based approach for selecting subrecipients for on-site visits.

#### **DCFS Response:**

The Department has developed and implemented a procedure to track the receipt of all required audits, and follow up on all audits that are not received within the required time frame. An initial screening process takes place to let the subrecipients know if any documents are missing. Revisions of Administrative rules that formalize the procedures followed by the Department are in process and posted. During the year, DCFS began implementing the portion of the plan to increase staffing to complete quick reviews of all audits that are received. The size of the audit staff was increased by five beginning in April 2004. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues.

The Department also has programmatic units that perform on-site compliance reviews of subrecipients. As part of their on-site review/field audit process, the auditors meet with the programmatic monitors and the licensing representatives to learn about any potential problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

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For the Year Ended June 30, 2004

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

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

**Program Name:** Child Welfare Services – State Grants

**CFDA # and Program Expenditures:** 93.645 (\$14,213,000)

**Questioned Costs:** None

**Finding 04-37** *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. Part I of Title IV-B, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. During a review of fifty case files selected for testwork, we noted seven of the initial case plans being completed within a range of seven to 44 days over the 60 day federal requirement. Additionally, in three cases an initial case service plan was not included in the child's case file nor could it be located by DCFS personnel.

Part I of Title IV-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. Per 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 timely preparation of case plans is always a concern. Unfortunately, due to staff reductions and placement changes, there are times when case plans are not prepared within the established timeframes.

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 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:**

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For the Year Ended June 30, 2004

The Department continues to stress the importance of adequate and timely documentation for child case files. Based on the fundamentals of good social work practice, requirements of the Council of Accreditation, and Federal Review Outcomes, Illinois is implementing an Integrated Assessment program that includes preparation of a comprehensive service plan. The service plan will be part of an integrated system that will automate preparation of the plan and other required documentation. In the interim, we continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044 / 93.045 / 93.053 (\$44,057,000)  
**Questioned Costs:** None

**Finding 04-38** *Inadequate Monitoring of Subrecipients*

IDOA is not adequately monitoring subrecipients receiving federal awards under the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies 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 includes: performing evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During our testwork of seven subrecipients of the Aging Cluster with total expenditures of \$23,011,842, we noted no on-site monitoring procedures had been performed since 1998. Total awards passed through to subrecipients of the Aging Cluster were \$42,037,000 during the year ended June 30, 2004.

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 establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained.

In discussing these conditions with IDOA officials, they state they believed the current monitoring procedures were adequate but will review what other State Units on Aging are doing and consider any necessary changes.

Failure to adequately perform 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 04-38, 03-36)

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For the Year Ended June 30, 2004

#### **Recommendation:**

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

#### **IDOA Response:**

After a productive discussion on this finding with the auditors at the Department's Exit Conference on April 12, 2005, the Department is proposing to do the following to address the Auditor's recommendation:

The Department will contact a number of other State Units on Aging to determine how often they do on-site program and fiscal reviews, what programmatic and fiscal documents they examine during the on-site reviews, and what tools they use to accomplish these on-site reviews. We will use what we identify as best practices when developing our review tools.

Depending on what the Department learns from the other State Units on Aging, we will establish in our Policies and Procedures manual for Area Agencies on Aging the time frame for how often we will conduct on-site reviews. It is expected that these reviews will probably be conducted at least once during the Area Plan cycle which has been by Department policy a three year time period.

When developing the Department's fiscal review tool, we will seek to not duplicate anything that is already reviewed during the annual A-133 Audit that each Area Agency is required to conduct. Instead, we will focus on the requirements contained in the A-133 Compliance Supplement (Parts 3 & 4), that is not included in the annual A-133 Audits we receive from the Area Agencies.

The Division of Home and Community Services will be responsible for developing, testing, and implementing the above mentioned policy and procedure changes by June 30, 2006.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044 / 93.045 / 93.053 (\$44,057,000)  
**Questioned Costs:** None

**Finding 04-39** *Inaccurate Certification of Maintenance of Effort Expenditures*

IDOA is not accurately certifying its maintenance of effort (MOE) expenditures under the Title III program to the USDHHS.

IDOA is required to spend for both services and administration under the Title III program at least the average amount of State funds it spent under the State plan for these activities for the three previous fiscal years. IDOA is required to report the amount spent related to these activities to the USDHHS and to certify if the amount is less than, equal to, or more than the required level of MOE.

During our testwork of the MOE requirement, we noted IDOA spent a total of \$2,985,931 for both services and administration under the Title III program during the federal fiscal year ended September 30, 2003, but only reported and certified that \$2,539,109 was spent for MOE expenditures. The amount reported for MOE expenditures was equal to the amount certified to the USDHHS as the average expenditures for the past three years. Upon further discussion with IDOA management, we noted this practice of under reporting MOE expenditures has been occurring since the federal fiscal year ended September 30, 1996, which was the first base year of the MOE requirement. The effect of this underreporting is that IDOA has been improperly calculating the three-year average (MOE requirement) using the lower amounts certified. This, in turn, has resulted in a three year average that has been relatively consistent since the base year and does not properly reflect the actual expenditures incurred for the respective periods and would result in a higher MOE requirement.

According to the Area On Aging Program Instruction, each State must submit a certification of maintenance of effort, which reports the state resources expended, under Title III of the Older Americans Act of 1965, to meet the required level of maintenance of effort for each federal fiscal year.

In discussing these conditions with IDOA officials, they stated management of the fiscal department misinterpreted the instructions on the MOE certification form.

Failure to accurately certify the level of maintenance of effort expenditures prevents the USDHHS from effectively monitoring and evaluating the performance of the Title III Program, and could result in an improper future allocation of funding by the USDHHS. (Finding Code 04-39)

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**Recommendation:**

We recommend IDOA review the process and procedures in place to prepare the certification of maintenance of effort to ensure that actual expenditures incurred during the period are used for the amount certified as MOE expenditures. IDOA should amend and resubmit its certifications to the USDHHS based on actual expenditures incurred during the respective periods.

**IDOA Response:**

IDOA agrees with the audit finding and will change the current process and procedures in place to ensure actual expenditures incurred during the period are used for the amount certified as MOE expenditures. IDOA will amend and resubmit its certification to USDHHS based on actual expenditures incurred during the respective periods. The Division of Finance and Administration will be responsible for resubmitting the certification form no later than June 30, 2005.



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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** HIV Care Formula Grants  
**CFDA # and Program Expenditures:** 93.917 (\$32,019,000)  
**Questioned Costs:** Cannot be determined

**Finding 04-40** *Inadequate Process for Determining Client Eligibility*

IDPH does not have an adequate process for performing client eligibility determinations for its HIV Care Formula Grant (HIV) program.

The HIV program administered by IDPH includes an AIDS Drug Assistance Program (ADAP) under which beneficiaries who meet certain eligibility requirements are provided drugs to treat HIV/AIDS. The eligibility criteria for ADAP require that the beneficiary: (1) has been diagnosed with HIV/AIDS; (2) is at an income level at or below 400% of the federal poverty level; (3) is not eligible for 80% or greater coverage of drugs through a third party payer; (4) is not eligible for medical assistance through the Medicaid Cluster (Medicaid); and (5) is an Illinois resident. IDPH's current process for determining eligibility involves an individual completing an application and submitting it to IDPH through the mail or in person to a member of the HIV Consortium (subrecipients of the HIV program). The application requires the applicant to submit proof of income, insurance, residency, and documentation of a medical diagnosis of HIV/AIDS. Additionally, IDPH confirms with the Illinois Department of Public Aid that the beneficiary is not receiving benefits under Medicaid.

During our testwork of benefits provided to HIV beneficiaries, we selected 30 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our testwork:

- In three cases, the case file did not contain documentation supporting the beneficiary had been diagnosed with the HIV disease.
- In 27 cases, the case file did not contain the documentation program (i.e. wage statements, check stubs, etc.) IDPH (or the subrecipient) used to verify the income reported by the beneficiary on the signed application. In each of these cases, we noted the amount of income documented on the individual's application for program services was at or below 400% of the federal poverty level.

Additionally, in sixteen of the 30 cases selected for testwork, the beneficiary's application indicated the beneficiary had no income. Although the individual's income level was below 400% of the poverty level and IDPH confirmed the individual was not receiving benefits under Medicaid, a determination of Medicaid eligibility had not been performed. As a result, no income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.

In accordance with US Code 42 USC 300ff-26(b) an individual receiving benefits under the HIV program is required to 1) have a medical diagnosis of the HIV disease and 2) be a low-income individual as defined by the State. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to

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establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include collecting and maintaining adequate documentation to support eligibility determinations.

In discussing these conditions with IDPH officials, they stated that because the criticality of initiating and continuing to receive life sustaining drug therapies, the Illinois ADAP has utilized the prescription for HIV medications as sufficient proof of diagnosis. Regarding income verification, many of the ADAP applicants are homeless, transient or recently released from correctional facilities and are without income.

Failure to adequately establish a beneficiary's eligibility may result in expenditures being made to or on the behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 04-40)

#### **Recommendation:**

We recommend IDPH review its current process for determining eligibility and consider changes necessary to ensure adequate documentation exists to support eligibility determinations. In addition, IDPH should consider implementing procedures to verify income and insurance information with third party sources (i.e. employers, third party insurers, etc.) and other state agencies.

#### **IDPH Response:**

The Department concurs and will improve its supporting documentation. Program staff will ensure that Medicaid eligibility is reviewed upon application and checked again prior to approval of each monthly request for prescription refill. For income verification, for these individuals who do not have the required income documentation, we will now require a signed attestation of zero income status prior to approval of program enrollment.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Center for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$38,139,000)  
93.917 (\$32,019,000)

**Questioned Costs:** None

**Finding 04-41** *Inadequate Documentation Supporting Cash Draws*

IDPH did not maintain adequate documentation for cash draws performed for the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs during the year ended June 30, 2004.

IDPH performs cash draws for the Bioterrorism and HIV programs on a reimbursement basis. Specifically, IDPH records all expenditures incurred and submitted to the Illinois Office of the Comptroller for payment in an expenditure database. On a biweekly basis, a listing of the expenditures recorded in the database is generated for each federal program for use in calculating the amount of funds to be requested from the federal government. The federal draw is calculated by a staff accountant and is reviewed and approved by the Chief of Federal Accounting and Reporting prior to making the request for funds.

During our testwork on five draws for the Bioterrorism program and six draws for the HIV program (representing approximately 55% and 52%, respectively, of cash drawn for these programs during the year ended June 30, 2004), we noted expenditure listings supporting cash draws had not been maintained. Although IDPH was able to reproduce the expenditure listings for each draw tested, the expenditures reported on the listings provided did not agree to the amounts drawn. IDPH could not provide specific reasons for the differences identified, except to state that the differences may be due to reconciling items for activity recorded since the original date the listings were run or rounding. Unreconciled differences in which cash draws exceeded the total expenditures reported on the recreated listings ranged from \$33,054 to \$540,137 for the draws tested. Additionally, there was no documentation that an independent person knowledgeable of the draw procedures had reviewed and approved the draw prior to funds being requested.

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 maintaining adequate supporting documentation for all cash draw calculations and formal documentation of the performance of related supervisory reviews.

In discussing this with IDPH officials, they stated that the department is reviewing its cash draws and minimizing the cash balance on hand by drawing cash only to meet the program's immediate cash needs but did not maintain the hard copy documentation for reconciliation purposes.

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Failure to maintain adequate documentation for cash draws and review procedures could result in inaccurate or unapproved amounts being requested. (Finding Code 04-41)

**Recommendation:**

We recommend IDPH implement procedures to ensure cash draws are adequately supported and supervisory reviews are formally documented.

**IDPH Response:**

The agency concurs with the recommendation and procedural changes are currently in place to keep hard copy supporting documentation for cash draws and documentation for the supervisory reviews.

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**State Agency:** Illinois Department of Public Health (IDPH)

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

**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$38,139,000)  
93.917 (\$32,019,000)

**Questioned Costs:** None

**Finding 04-42** *Inadequate Monitoring of Subrecipients*

IDPH is not adequately monitoring subrecipients receiving federal awards under its Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

IDPH monitors the subrecipients of the Bioterrorism and HIV programs 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 (bi-annually for HIV and quarterly for Bioterrorism), and (4) periodic communication of program requirements. During our testwork of 30 subrecipients of the Bioterrorism program expending \$7,200,000 and 23 subrecipients of the HIV program expending \$5,739,000, we noted the following exceptions:

- Twelve of the HIV subrecipients had not been subject to on-site monitoring procedures in 2003 or 2004 as required by IDPH procedures.
- On-site reviews for eight subrecipients of the HIV program did not include procedures to review the subrecipient's fiscal and administrative capabilities and internal controls. Funds passed through to these subrecipients were \$503,400 during the year ended June 30, 2004.
- Five of the Bioterrorism subrecipients selected for testwork have never been subject to on-site monitoring procedures. Upon further investigation, we noted only local health departments have been subject to on-site monitoring procedures. Funds passed through to subrecipients which are not local health departments approximated \$243,000 during the year ended June 30, 2004.
- Two Bioterrorism subrecipients did not submit required expenditure reports. IDPH did not appear to have followed up with these subrecipients relative to the missing reports prior to our audit procedures.

Additionally, IDPH is not performing on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of subrecipients of any of its Bioterrorism program.

Total subrecipient expenditures for the Bioterrorism and HIV programs were \$21,694,000 and \$5,739,000, respectively, during the year ended June 30, 2004.

Per OMB Circular A-133 Compliance Supplement, dated March 2004, 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

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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 IDPH officials, they stated that while much on-site monitoring did occur, staff shortages prohibited all on-site visits from being performed.

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 04-42)

#### **Recommendation:**

We recommend IDPH evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes and to follow up on delinquent expenditure reports. IDPH should also revise the on-site monitoring procedures for its Bioterrorism and HIV programs to include procedures to review the subrecipient's fiscal and administrative capabilities.

#### **IDPH Response:**

The department concurs with the recommendations and importance of on-site monitoring. Efforts will continue to meet our existing monitoring procedures and on-site visits for both federal programs will now include reviews of each subrecipient's fiscal and administrative capabilities.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$38,139,000)  
93.917 (\$32,019,000)

**Questioned Costs:** None

**Finding 04-43** *Inadequate Cash Management Procedures for Subrecipients*

IDPH does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

We reviewed the subrecipient agreements for 53 subrecipients of the Bioterrorism and HIV programs and noted the payment terms for these contracts stated the subrecipient would be provided grant funding through an annual or quarterly payment. As IDPH had not reviewed the cash position of these subrecipients at the time each disbursement was made, we could not determine whether or not the subrecipients had received an advance of more than 30 days of funding. Total payments to subrecipients of the Bioterrorism and HIV programs were \$21,694,000 and \$5,739,000, respectively, during the year ended June 30, 2004.

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, 45 CFR 92.37 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 IDPH officials, they stated they were not aware of any specific 30 day guideline in any federal circular or correspondence, but do monitor the immediate cash needs of its subrecipients.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 04-43)

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#### **Recommendation:**

We recommend IDPH review its advance funding policies and techniques for subrecipients and implement policies, techniques and a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis.

#### **IDPH Response:**

The Department concurs and will monitor its subrecipient's immediate cash needs to ensure that they receive no more than 30 days of advance funds. It should be noted that for subrecipients of the Bioterrorism Preparedness Program, these funds are used to increase the infrastructure and capacity of the subrecipients to respond to a potential disaster/event. As a result, these funds are not strictly a fixed amount for routine costs, i.e. one twelfth of the grant amount. For the HIV programs identified, most did not result in any advance of dollars as grants to subrecipients occurred after a substantial amount of expenditures had already occurred by each respective subrecipient so the advance was in fact reflective of their immediate cash needs.

#### **Auditors' Comment:**

As discussed in the finding above, the Agency had not monitored the cash position of its subrecipients throughout the year and could not provide documentation demonstrating compliance at the time of our fieldwork.



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**State Agency:** Illinois Department of Public Health (IDPH)

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

**Program Name:** Center for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$38,139,000)  
93.917 (\$32,019,000)

**Questioned Costs:** None

**Finding 04-44** Insufficient Federal Award Information Provided to Subrecipients

IDPH did not provide all subrecipients of its Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs with required federal award information.

During our review of subrecipient award communications, we noted that 13 subrecipient award documents out of 53 tested did not provide evidence that IDPH had provided the subrecipient the federal program’s CFDA title and number as follows:

| Program      | Number of Subrecipients Not Informed of Federal Award Information | Fiscal Year 2004 Expenditures of Subrecipients Not Informed of Federal Award Information | Total Fiscal Year 2004 Subrecipient Expenditures | Total Fiscal Year 2004 Program Expenditures |
|--------------|---|--|--|---|
| Bioterrorism | 3   | \$193,500  | \$21,694,000                                     | \$38,139,000                                |
| HIV Care     | 10  | \$599,260  | \$5,739,000                                      | \$32,019,000                                |

In addition, program regulations and allowable activities information was not communicated to the three Bioterrorism subrecipients identified above.

According to OMB Circular A-133 \_\_\_.400 (d), a pass through entity is required to identify each federal award made by informing each subrecipient of the federal program’s CFDA title and number. The pass through entity is also required to advise subrecipients of requirements imposed on them by federal laws and regulations.

In discussing these conditions with IDPH officials, they stated that they were aware of this requirement and simply missed some of the notifications.

Failure to inform subrecipients of the federal award information could result in subrecipients improperly reporting expenditures in 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 04-44)

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**Recommendation:**

We recommend IDPH notify all subrecipients in writing of the CFDA title and number, program regulations, and activities allowed.

**IDPH Response:**

The department concurs and will notify all subrecipients of the applicable information. For the CFDA numbers that we missed, the subrecipients have been subsequently notified of the relevant information.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Reading First State Grants

**CFDA # and Program Expenditures:** 84.357 (\$30,109,000)

**Questioned Costs:** None

**Finding 04-45** *Failure to Implement the Activities Identified in the Comprehensive State Plan (State Plan)*

ISBE did not administer certain activities of its Reading First program in accordance with provisions outlined in its State Plan.

The State Plan details ISBE's specific goals and activities for improving reading instruction and delivering reading services to eligible students in Kindergarten through 3rd grade. The State Plan identifies the specific mechanisms that ISBE will use to achieve its Reading First goals. During our testwork and discussions with management, we noted ISBE has not implemented the activities outlined in its State Plan as follows:

- ISBE did not employ a full-time Reading First program coordinator in 2003-2004. Additionally, ISBE only employed five out of a required eight principal consultants to complete the professional development, technical assistance, and monitoring functions to school districts.
- ISBE did not establish the Illinois Reading First Center (IRFC). The intended purpose of the IRFC was to develop materials, research programs and advise ISBE Reading First staff with respect to improving support of Illinois Reading First educators.
- ISBE did not define the necessary qualifications in the State Plan for early reading specialists at the intermediary service centers (ISC's). There are four ISC's that were established to provide programs and services in the areas of: Administrators' Academy; Computer Technology Education; Directory of Cooperating Consultants; Education of Gifted Children; and Staff Development Services in Fundamental Learning Areas.
- ISBE did not establish Reading First Academies for 3<sup>rd</sup> grade teachers within the required time frames. Specifically, ISBE developed the Reading First Academies for 3<sup>rd</sup> grade teachers later than those Academies for K-2<sup>nd</sup> teachers. The training for trainers to launch the 3<sup>rd</sup> grade Reading Academies was not offered until the spring of 2004 which resulted in 3<sup>rd</sup> grade teachers receiving Reading First training in the five essential components of effective literature instruction during the third and final year of the grant program.
- ISBE did not systematically include the Special Education teachers (K-12) in the K-3<sup>rd</sup> Reading First Academies discussed above.
- ISBE did not initiate activities to strengthen and enhance teacher preparation in scientifically based reading instruction at public institutions of higher education (pre-service). Consequently, ISBE staff never met with the College Instructors of Reading Professionals to share information and resources,

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nor were incentive grants for developing new course syllabi or revising existing course syllabi to reflect current research findings offered.

In accordance with 20 USC 6311, ISBE is required to prepare a Consolidated State Plan. The State Plan is submitted to the USDE in response to its Request for Applications for the Reading First program. The State Plan describes the Illinois Reading First Plan for improving reading instruction, including an analysis of current reading initiatives and identified gaps, rationale for using scientifically based reading research as the basis for improving K-3rd reading instruction, ISBE's definition of subgrant eligibility, selection criteria for awarding subgrants, the process for awarding subgrants and ISBE's professional development plan.

In discussing these conditions with ISBE officials, they stated that these conditions were the result of a lack of resources and a loss of institutional knowledge due to retirements and transfers of staff and management in fiscal year 2003 and fiscal year 2004.

Failure to implement the provisions of the State Plan may result in noncompliance and loss of future federal funding from the USDE (Finding Code 04-45).

#### **Recommendation:**

We recommend ISBE review the process and procedures in place to ensure compliance with the State Plan.

#### **ISBE Response:**

The Agency agrees with the recommendation and has reviewed the program and has taken several actions to correct the deficiencies noted above and to ensure compliance with the State Plan in the future. The Agency is working with the National Reading First Technical Assistance Center to draft an amendment to the State Plan and develop and implement improved processes and procedures. Specific corrective actions that have been implemented include:

- The Agency has recently hired 4 principal consultants into the Reading 1<sup>st</sup> program and plans to hire additional Reading 1<sup>st</sup> staff.
- The planned amendment to the State Plan will eliminate the Illinois Reading First Center plans.
- For fiscal year 2006 the definitions for the necessary qualifications for early reading specialists at the intermediate service centers will be in place.
- The Reading First academies for teachers have been established and should be on track.
- For fiscal year 2006 Special Education teachers will be systematically included in the academies.
- Also, in fiscal year 2006 several activities will be implemented to strengthen teacher preparation in scientifically based reading instruction at public universities and colleges.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Reading First State Grants

**CFDA # and Program Expenditures:** 84.357 (\$30,109,000)

**Questioned Costs:** \$30,109,000

**Finding 04-46** *Failure to Determine Eligibility and Maintain Controls and Documentation for Subrecipients*

ISBE did not perform eligibility determinations for subrecipients receiving federal funds under the Reading First State Grants program during the year ended June 30, 2004.

The Consolidated State Plan for the Reading First State Grants program requires the State to perform eligibility determinations for subrecipients on an annual basis. When a subrecipient is determined eligible, individual grants are awarded on a competitive basis using a number of factors as more specifically defined in the Consolidated State Plan. During our testing of the eligibility of subrecipients during the year ended June 30, 2004, we noted ISBE did not perform eligibility determinations. Specifically, ISBE awarded grants on a competitive basis to the same subrecipients as the previous year without consideration of whether the subrecipients met the eligibility criteria in the current year.

We also noted ISBE did not maintain adequate controls or documentation in the awarding of competitive grants to subrecipients. During our testwork over all 42 subrecipients of the Reading First State Grants program, we noted five applications from subrecipients were not signed and approved by ISBE personnel; eleven files did not contain a signed award letter; and four initial/amended budgets were not signed and approved by ISBE personnel. During the year ended June 30, 2004, ISBE passed through approximately \$30,109,000 to subrecipients of Reading First State Grants program.

In accordance with 20 USC 6362(c)(6)(A)&(B) a subrecipient is eligible to receive federal funds under the Reading First State Grants program if it 1) is among the subrecipients with the highest percentage or number of students in kindergarten through third grade reading below grade level, based on the most current data available, and 2) has jurisdiction over at least one of the following a) a geographic area that includes an area designated as an empowerment zone, or an enterprise community, under part I of subchapter U of chapter I of the Internal Revenue Codes b) a significant number or percentage of schools that are identified for school improvement under Title I, Part A, or c) the highest percentage or number of children who are counted for allocations under Title I, Part A, in comparison to other subrecipients in the State.

The Consolidated State Plan for the Reading First State Grants programs requires that eligibility for subrecipients be determined on an annual basis. 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 that federal funds are only awarded to eligible subrecipients including review by an appropriate level of management who is knowledgeable of the program requirements and maintenance of signed award letters.

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In discussing these conditions with ISBE officials, they stated that these conditions were the result of a lack of resources and a loss of institutional knowledge due to retirements and transfers of staff and management in fiscal year 2003 and fiscal year 2004.

Failure to properly determine eligibility for subrecipients in accordance with Federal regulations and the State Plan may result in federal funds being awarded to ineligible subrecipients, which are unallowable costs. (Finding 04-46)

#### **Recommendation:**

We recommend ISBE review its current process for performing eligibility determinations and awarding competitive grants to subrecipients and consider changes necessary to ensure all determinations are performed and reviewed by an appropriate level of management who is knowledgeable of the program requirements. ISBE should also maintain adequate documentation in subrecipient files including signed applications, award letters, and approved budgets.

#### **ISBE Response:**

The Agency agrees with the recommendation and has worked with the National Reading First Technical Assistance Center and the USDE to improve its processes for determining eligibility and awarding funds. The division has also implemented improved documentation retention and file maintenance procedures.

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For the Year Ended June 30, 2004

**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Title One Grants to Local Educational Agencies  
Special Education Cluster  
Vocational Education Basic Grants to States  
Reading First State Grants  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010 (\$480,829,000)  
84.027/84.173 (\$410,047,000)  
84.048 (\$46,678,000)  
84.357 (\$30,109,000)  
84.367 (\$115,297,000)

**Questioned Costs:** None

**Finding 04-47** *Inadequate On-Site Monitoring of Subrecipients*

ISBE does not have an adequate process for selecting subrecipients for on-site reviews under the Title One Grants to Local Educational Agencies, Special Education Cluster, Vocational Education Basic Grants to States, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

During the year ended June 30, 2004, ISBE implemented a new method for selecting subrecipients and related Education programs to perform on-site program and fiscal monitoring which inappropriately combines elements of both cyclical and risk-based approaches. This approach results in certain programs that will not be reviewed for several years, if ever.

Specifically, ISBE placed each subrecipient receiving funds into a three-year cycle that dictated the year in which ISBE would perform on-site monitoring procedures. After being placed into a cycle (year), ISBE selected the programs that would be reviewed using a risk based approach with the objective of reviewing programs that comprise at least 50% of the federal expenditures for an individual subrecipient. By first selecting subrecipients based on a cyclical approach and then selecting the individual programs for review based on risk assessments, certain programs administered by subrecipients will not be reviewed for several years, if ever. Additionally, ISBE officials stated that risk assessments for each program are performed based on the nature of the program (i.e. certain programs are considered higher risk), prior A-133 Findings, and information received from internal and external sources. However, these risk criteria are not clearly defined nor are the risk assessments documented.

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Using this approach, ISBE performed program and fiscal monitoring procedures for subrecipients during the year ended June 30, 2004 as follows:

| <b>Program</b>                                 | <b>Total number of subrecipients</b> | <b>Percentage of subrecipients reviewed</b> | <b>Total subrecipient expenditures</b> | <b>Percentage of subrecipient expenditures reviewed</b> |
|--|--------------------------------------|---|--|---|
| Title One Grants to Local Educational Agencies | 162                                  | 26%   | \$476,997,000                          | 68%   |
| Special Education Cluster                      | 50                                   | 19%   | \$397,514,000                          | 16%   |
| Vocational Education Basic Grants to States    | 9                                    | 11%   | \$42,261,000                           | 10%   |
| Reading First State Grants                     | 11                                   | 19%   | \$30,109,000                           | 28%   |
| Improving Teacher Quality State Grants         | 169                                  | 24%   | \$112,815,000                          | 16%   |

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. Good internal controls require that risk assessments be adequately documented.

In discussing these conditions with ISBE officials, they state that the Agency believes adequate on-site monitoring of subrecipients is best achieved through a combination of cyclical and risk-based approaches, as is evidenced by the percentage of subrecipients and total expenditures monitored for fiscal and programmatic compliance issues.

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 04-47, 03-41, 02-39, 01-29, 00-21)

**Recommendation:**

We recommend ISBE utilize either a cyclical or risk based approach for selecting subrecipients to perform on-site monitoring procedures. If a risk based approach is selected, ISBE should establish written procedures including clearly defined risk criteria and required documentation to ensure risk assessments are properly performed.



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#### **ISBE Response:**

The Agency is in partial agreement with the recommendations above. The Agency plans to continue to combine the elements of cyclical and risk-based approaches, as we believe this can provide more optimal monitoring coverage than a single approach methodology. To reduce the risk of a subrecipient or a federal program not receiving appropriate oversight, the following changes will be incorporated into the upcoming monitoring plans:

The External Assurance Division will complete two risk analyses on an annual basis. The first risk analysis will be for the determination of High-Risk subrecipients for whom an annual on-site visit will be conducted. Medium and Low-Risk subrecipients will receive on-site visits on a cyclical basis. The second risk analysis will be conducted for the purpose of developing a universal monitoring plan for all subrecipients scheduled for on-site visits. High-Risk programs will be monitored annually. Medium and Low-Risk programs will be scheduled for on-site review on a cyclical basis. In addition, allowances for referrals will be built into the monitoring plans.

Risk criteria will be developed and documented and the above-mentioned risk analyses will be appropriately documented in a spreadsheet.

#### **Auditors' Comment:**

As discussed in the finding above, we do not believe it is possible to integrate a cyclical and risk based approach for selecting subrecipients for on-site reviews.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Vocational Education Basic Grants to States

**CFDA # and Program Expenditures:** 84.048 (\$46,678,000)

**Questioned Costs:** None

**Finding 04-48** *Inaccurate Reporting of the Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report*

ISBE did not accurately prepare the fiscal year 2003 “Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report” (Accountability Report).

We obtained and reviewed ISBE’s Annual Accountability Report for fiscal year 2003, prepared and submitted in December 2003. This report contains data to be used in determining whether ISBE met its adjusted performance levels for the following core indicators 1) attainment of academic and vocational skills; 2) attainment of diploma or credential; 3) placement and retention; and 4) participation in, preparation for, and completion of program leading to non-traditional occupation, and contains narrative, status of funds, and performance indicators. We noted the following inaccuracies in reporting the Status of Funds:

- State Programs expenditures (total) were overstated by \$473,440;
- Other expenditures (total) were understated by \$831,755; and
- Equipment in Subrecipient Funds expenditures was overstated by \$32,555.

Additionally, we noted that ISBE did not reconcile the amounts included in the Accountability Report to supporting documentation.

In accordance with 20 USC 2323(c)(1), ISBE is required to submit an Annual Accountability Report containing data to be used in determining whether it met its adjusted performance levels for each of its core indicators of performance and any State indicators of performance. The information provided in this report is incorporated into ISBE’s state plan, and used to determination eligibility for future funding. 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 reconciling amounts reported to the granting agencies to amounts included in ISBE’s accounting records.

In discussing these conditions with ISBE officials, they state that these differences were the result of clerical errors. Written correspondence from U.S. Department of Education officials indicated amendments to the interim Financial Status Report were not required. Necessary adjustments were made to the final FSR.

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Failure to accurately report expenditures in the Accountability Report prevents the USDE from effectively monitoring and evaluating the performance of the Vocational Education Program and could result in an improper future allocation of funding by the USDE (Finding Code 04-48, 03-44)

#### **Recommendation:**

We recommend ISBE review the process and procedures in place to prepare the Accountability Report. Additionally, the report and supporting documentation (schedules) should be reviewed by an individual who is independent of the preparation process and is knowledgeable of the reporting requirements.

#### **ISBE Response:**

The Agency agrees with the recommendation and has reviewed and improved its processes and procedures for the preparation and submission of the Accountability reports. To correct the inaccuracies in the interim report and further ensure the submission of accurate data for all Accountability reports, the Agency has reviewed and corrected the spreadsheet formulas used for the report and implemented a review process.

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For the Year Ended June 30, 2004

**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Reading First State Grants

**CFDA # and Program Expenditures:** 84.357 (\$30,109,000)

**Questioned Costs:** None

**Finding 04-49** *Incomplete Annual Performance Report*

ISBE did not submit the required student assessment data in its fiscal year 2003 Annual Performance Report.

We obtained and reviewed ISBE's Annual Performance Report for fiscal year 2003, prepared and submitted in November 2003. This report contains data to be used in determining whether ISBE met the required performance levels under the program. During our review of this report, we noted the following missing student performance data:

- Number and percentage of kindergarten and first grade students meeting or exceeding the spring target score for the Illinois Snapshot of Early Literacy (ISEL) for alphabet recognition, story listening, phonemic awareness, one-to-one matching, letter sounds, developmental spelling (phonics), word recognition (phonics) and graded passage reading (phonics, fluency, vocabulary and comprehension), by school
- Number and percentage of second grade students meeting or exceeding the spring target score for the ISEL for spelling, word recognition, oral passage, comprehension, fluency and extended response, by school
- Number and percentage of kindergarten and first grade students meeting or exceeding the spring ISEL-K/1 target scores, disaggregated by economically disadvantaged status, ethnicity, special education status, and gender
- Reading First special education referral rates, by school district

In accordance with 20 USC 6362 (d)(5)(c), ISBE is required to submit an Annual Performance Report containing data on the following: (i) evidence that ISBE is fulfilling its obligations under this subpart (ii) specific identification of those schools and Local Education Agencies (LEAs) that report the largest gains in reading achievement (iii) the progress ISBE and LEAs within the State are making in reducing the number of students served under this subpart in grades 1, 2, and 3 who are reading below grade level, and (iv) evidence on whether ISBE and LEAs within the State have significantly increased the number of students reading at grade level or above, significantly increased the percentages of students described in section 6311 (b) (2) (C) (v) (II) of this title who are reading at grade level or above. 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 reconciling amounts reported to the granting agencies to amounts included in ISBE's accounting records.

In discussing these conditions with ISBE officials, they stated that no system for collecting the student assessment data had been developed at the time the report was submitted to the U.S. Department of

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For the Year Ended June 30, 2004

Education. ISBE obtained a contractor in October 2003 to collect the required data and a revised Annual Report was submitted in July 2004.

Failure to report student assessment data prevents the USDE from effectively monitoring and evaluating the performance of the Reading First State Grants Program and could result in an improper future allocation of funding by the USDE (Finding Code 04-49).

#### **Recommendation:**

We recommend ISBE review the process and procedures in place to prepare the Annual Performance Report. Additionally, an individual who is independent of the preparation process and is knowledgeable of the reporting requirements should review the report and supporting documentation.

#### **ISBE Response:**

The Agency agrees with the recommendation and has reviewed its processes and procedures for preparing the Annual Performance Report and still retains the services of the contractor to assist in the collection of the required data. In addition, the Agency has hired 4 principal consultants in the Reading First program who also assist in the efforts to ensure that there is a collection system in place for every required data field. Both the division manager and consultants continually review the collection process and the division manager will perform a final review of the report upon its completion.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Title One Grants to Local Educational Agencies  
Special Education Cluster  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010 (\$480,429,000)  
84.027 / 84.173 (\$410,047,000)  
84.367 (\$115,297,000)

**Questioned Costs:** Cannot be determined

**Finding 04-50** *Inaccurate Interest Liability Calculation*

ISBE did not properly calculate the interest liability for the Title One, Special Education, and Improving Teacher Quality State Grants programs for the year ended June 30, 2004.

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 required to be used for the draw down of federal funds. Some of the funding techniques utilized by the State result in the State earning interest on funds that are received in advance of their disbursement. The TSA requires the State to calculate an interest liability for the Title One, Special Education and Improving Teacher Quality State Grants programs based on the average daily (cash) balance for each program. To calculate the average daily balance, ISBE is required to track the actual cash activity for each Federal program by its own account.

During our review of the interest calculation for these programs, we noted ISBE does not track the actual cash activity for each Federal program by its own account. Specifically, there is only one fund maintained at the Comptroller's office for all education programs. ISBE then allocates the average daily balance of the fund to each education program based on the percentage of dollars drawn for each program during the year.

Section 8.7.5(C)(3) of the TSA states that the average daily balance should be calculated using the actual activity of each draw from the date of deposit to the date of issuance or clearance, whichever is pertinent, as reflected in each program's account. Section 8.7.5(A) of the TSA states that the State shall track the actual cash activity for each Federal program by its own account. 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 interest liability calculation is performed in accordance with the TSA.

In discussing this with ISBE officials, they state they receive the average daily balance from the Comptroller's office on a fund basis (i.e. education) versus by program.

Failure to calculate the interest liability in accordance with the TSA could result in an underpayment of an interest liability to the federal government. (Finding Code 04-50)

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#### **Recommendation:**

We recommend ISBE establish procedures to track the actual cash activity for each Federal program. Additionally, ISBE should establish written procedures for the calculation of the interest liability to ensure that it is performed in accordance with the TSA.

#### **ISBE Response:**

The Agency agrees that calculations should be performed in accordance with the TSA. ISBE has requested an amendment to the language in the fiscal year 2005 and fiscal year 2006 TSA to state: *“The average daily balance of Federal Funds in the fund’s account reflects the actual activity of each draw from the date of deposit to the date of issuance or clearance, whichever is pertinent.”* This would allow the Agency to track and calculate by fund which is in alignment with the Comptroller records.

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For the Year Ended June 30, 2004

**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Agriculture (USDA)

**Program Name:** Child Nutrition Cluster  
Child and Adult Care Food Program

**CFDA # and Program Expenditures:** 10.553 / 10.555 / 10.556 / 10.559 (\$324,877,000)  
10.558 (\$88,477,000)

**Questioned Costs:** None

**Finding 04-51** Untimely Reconciliation of the Automated Standard Application for Payments System (ASAP) and the Management Information Database Accounting System (MIDAS).

ISBE did not complete all of its monthly reconciliation between the Automated Standard Application for Payments System (ASAP) and the Agency's Management Information Database Accounting System (MIDAS).

ISBE draws its Department of Agriculture funding using ASAP. ASAP is a web-based program that requires the user to enter data consisting of the draw amount, date, grant number, etc. The information entered into ASAP is also entered into the Agency's internal accounting system MIDAS. ISBE's procedures require that reconciliation between these two systems be prepared on a monthly basis by the fiscal consultant (employee) and reviewed by the division administrator.

During our testwork over the reconciliation process between the ASAP and MIDAS systems, we noted ISBE did not prepare the reconciliations on a monthly basis. Specifically, ISBE only performed three reconciliations during the year ended June 30, 2004: the first was for the 9 month period ended April 30, 2004, and the second and third were for the months ended May 31, 2004 and June 30, 2004, respectively.

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 reconciling Federal grant payments from ASAP to ISBE accounting records in MIDAS.

In discussing this with ISBE personnel, they state that upon receipt of the fiscal year 2003 finding (Prior Year Finding Code 03-38), they immediately began performing reconciliations on a monthly basis beginning in April 2004.

Failure to perform monthly reconciliations could result in an improper draw of federal awards. (Finding Code 04-51)



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**Recommendation:**

We recommend ISBE reconcile the monthly ASAP reports to its accounting records within MIDAS on a timely basis throughout the year to ensure that cash draws are properly accounted for and recorded in MIDAS.

**ISBE Response:**

The Agency agrees with the recommendation and in April 2004, upon receipt of the fiscal year 2003 audit findings, ISBE immediately began performing reconciliations on a monthly basis.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Education (USDE)

**Program Name:** Food Donation  
Child Nutrition Cluster  
Child and Adult Care Food Program  
Title One Grants to Local Educational Agencies  
Special Education Cluster  
Vocational Education Basic Grants to States  
Reading First State Grants  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 10.550 (\$36,803,000)  
10.553 / 10.555 / 10.556 / 10.559 (\$324,877,000)  
10.558 (\$88,477,000)  
84.010 (\$480,429,000)  
84.027/84.173 (\$410,047,000)  
84.048 (\$46,678,000)  
84.357 (\$30,109,000)  
84.367 (\$115,297,000)

**Questioned Costs:** None

**Finding 04-52** Untimely Review of OMB Circular A-133 Audit Reports

ISBE did not review OMB Circular A-133 audit reports received from its subrecipients on a timely basis.

Subrecipients who receive more than \$500,000 in federal awards from ISBE are required to submit an OMB Circular A-133 audit report. The funding and disbursements division initially reviews these reports. A “single audit desk review sheet” checklist is used to assist in evaluating whether the OMB Circular A-133 audit was properly performed and in evaluating the impact of findings. If findings are reported, a review form is completed and forwarded with the OMB Circular A-133 audit report to the respective ISBE program fiscal consultant for follow-up and resolution. The findings are also logged and tracked in a database.

We selected a total sample of 133 subrecipient monitoring files to review from the above programs. During our review of the subrecipient monitoring files, we noted that for 38 subrecipient files ISBE had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by ISBE. These reviews were completed as follows:

| <b>Desk Review Period</b>  | <b>Number of Subrecipients</b> |
|----------------------------|--------------------------------|
| 61-90 days after receipt   | 30                             |
| 91-120 days after receipt  | 5                              |
| 121-150 days after receipt | None                           |
| 151-180 days after receipt | 1                              |
| 180 + days after receipt   | 2                              |

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Of the 2 subrecipients reviewed six months after the date of receipt of the audit report, ISBE was required to issue management decisions and did so within the required six-month timeframe.

ISBE's subrecipient expenditures under the federal programs for the year ended June 30, 2004 were as follows:

| Program  | Total Fiscal<br>Year 2004<br>Subrecipient<br>Expenditures | Total Fiscal<br>Year 2004<br>Program<br>Expenditures | %     |
|--|---|--|-------|
| Food Donation                                  | \$36,784,000  | \$36,803,000   | 99.9% |
| Child Nutrition Cluster                        | \$320,209,000   | \$324,877,000  | 98.6% |
| Child and Adult Care Food                      | \$86,756,000  | \$88,477,000   | 98.1% |
| Title One Grants to Local Educational Agencies | \$476,997,000   | \$480,429,000  | 99.3% |
| Special Education Cluster                      | \$397,514,000   | \$410,047,000  | 96.9% |
| Vocational Education Basic Grants to States    | \$24,429,000  | \$46,678,000   | 52.3% |
| Reading First State Grants                     | \$30,109,000  | \$30,109,000   | 100%  |
| Improving Teacher Quality State Grants         | \$112,815,000   | \$115,297,000  | 97.8% |

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 34 CFR Sections 80.40 and 80.42, ISBE is required to have an effective internal control structure in place to ensure proper monitoring of subrecipients.

In discussing the desk review process with ISBE officials, they state that to ensure that the Federal timelines are met the Agency revised the desk review process and implemented additional controls in the process.

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. (Finding Code 04-52, 03-40, 02-38)

**Recommendation:**

We recommend ISBE establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports.

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**ISBE Response:**

The Agency is in agreement that the review period should allow ample time for management decisions to be issued in accordance with the requirements. For fiscal year 2004, the Agency implemented several recommendations suggested in the fiscal year 2003 A-133 audit report. All subrecipients now file with ISBE either an A-133 audit or a statement certifying that an A-133 audit is not required to ensure that the ISBE review process is complete. The Agency also implemented a two-tiered review process to further ensure that all Federal A-133 compliance requirements regarding the timeliness of management decisions being issued (within 180 days of receipt) would be met and successfully did so. To further strengthen controls the Agency will continue to work toward ensuring that all audits subject to management decisions are reviewed within an ample time frame to assure continued compliance with the Federal requirements.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$170,585,000)

**Questioned Costs:** Cannot be determined

**Finding 04-53** Processing and Submission of Re-insurance Claims

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

During fiscal year 2003, the U.S. Department of Education Office of the Inspector General (ED-OIG) conducted an audit of the Federal Family Education Loan program to determine if, for the period October 1, 2002 through June 30, 2003, ISAC (1) adequately processed post-default collections related to administrative wage garnishments, and (2) properly submitted eligible reinsurance claims to USDE for defaulted student loans (default claims). The final audit report received from ED-OIG indicated ISAC did not comply with the regulations regarding the submission of eligible reinsurance claims. The report stated ED-OIG reviewed 50 reinsurance claims, totaling \$123,521, selected from a universe of 21,732 reinsurance claims submitted during the audit period. Of the 50 claims tested, the report indicated 32 claims, totaling \$75,077, should have been returned to the lenders because the claim packet was missing accurate collection and/or payment histories or contained evidence of a due diligence violation(s). In addition, the draft report stated ISAC's claims review process is not adequate as it is limited to a brief review of summary information reported on the claim form submitted by the lender which does not provide adequate assurance that only claims submitted by lenders exercising required due diligence in servicing the loan were paid.

According to 34 CFR 682.406(a), a guaranty agency may make a claim payment from the Federal Fund and receive a reinsurance payment on a loan only if:

- (1) The lender exercised due diligence in making, disbursing, and servicing the loan as prescribed by the rules of the agency;
- (2) With respect to the reinsurance payment on the portion of a loan represented by a single disbursement of loan proceeds—
  - (i) The check for the disbursement was cashed within 120 days after disbursement; or
  - (ii) The proceeds of the disbursement made by electronic funds transfer or master check in accordance with §682.207(b)(1)(ii) (B) and (C) have been released from the restricted account maintained by the school within 120 days after disbursement;
- (3) The lender provided an accurate collection history and an accurate payment history to the guaranty agency with the default claim filed on the loan showing that the lender exercised due diligence in collecting the loan through collection efforts meeting the requirements of §682.411, including collection efforts against each endorser;
- (4) The loan was in default before the agency paid a default claim filed thereon;
- (5) The lender filed a default claim thereon with the guaranty agency within 90 days of default;

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- (6) The lender resubmitted a properly documented default claim to the guaranty agency not later than 60 days from the date the agency had returned that claim due solely to inadequate documentation, except that interest accruing beyond the 30th day after the date the guaranty agency returned the claim is not reinsured unless the lender files a claim for loss on the loan with the guarantor together with all required documentation, prior to the 30th day;
- (7) The lender satisfied all conditions of guarantee coverage set by the agency, unless the agency reinstated guarantee coverage on the loan following the lender's failure to satisfy such a condition pursuant to written policies and procedures established by the agency;
- (8) The agency paid or returned to the lender for additional documentation a default claim thereon filed by the lender within 90 days of the date the lender filed the claim or, if applicable, the additional documentation, except that interest accruing beyond the 60th day after the date the lender originally filed the claim is not reinsured;
- (9) The agency submitted a request for the payment on a form required by the Secretary no later than 45 days following payment of a default claim to the lender;
- (10) The loan was legally enforceable by the lender when the agency paid a claim on the loan to the lender;
- (11) The agency exercised due diligence in collection of the loan in accordance with §682.410(b)(6);
- (12) The agency and lender, if applicable, complied with all other Federal requirements with respect to the loan including—
  - (i) Payment of origination fees;
  - (ii) For Consolidation loans disbursed on or after October 1, 1993, and prior to October 1, 1998, payment on a monthly basis, of an interest payment rebate fee calculated on an annual basis and equal to 1.05 percent of the unpaid principal and accrued interest on the loan;
  - (iii) For Consolidation loans for which the application was received by the lender on or after October 1, 1998 and prior to February 1, 1999, payment on a monthly basis, of an interest payment rebate fee calculated on an annual basis and equal to 0.62 percent of the unpaid principal and accrued interest on the loan;
  - (iv) For Consolidation loans disbursed on or after February 1, 1999, payment of an interest payment rebate fee in accordance with paragraph (a)(12)(ii) of this section; and
  - (v) Compliance with all default aversion assistance requirements in §682.404(a)(2)(ii).
- (13) The agency assigns the loan to the Secretary, if so directed, in accordance with the requirements of §682.409; and
- (14) The guaranty agency certifies to the Secretary that diligent attempts have been made by the lender and the guaranty agency under §682.411(h) to locate the borrower through the use of effective skip-tracing techniques, including contact with the schools the student attended.

The ED-OIG audit report states that ISAC's process is not sufficient to fulfill their administrative responsibility contained in 34 CFR 684.406(a)(1) and (3) as stated above. The ED-OIG audit report recommends that ISAC require its claims analysts to verify lender due diligence activities shown on the claim form's summary of lender due diligence against all detailed collection history information, support for periods of deferments/forbearances, and dates and amount of borrow payments.

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

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

Failure to process claims in accordance with the federal regulations could result in the payment of ineligible claims and result in unallowable costs. (Finding Code 04-53, 03-45)

#### **Recommendation:**

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

#### **ISAC Response:**

ISAC has appealed the finding identified by the Department of Education, Office of the Inspector General. In addition, the agency is also actively engaged in meetings and discussions within the guaranty agency community concerning the interpretation of regulations related to the processing and submission of reinsurance claims. ISAC strongly believes that current industry practice for the processing and submission of reinsurance claims as outlined in the Common Manual clearly fulfill the regulations in question. ISAC will, however, modify our claims process, if necessary, based on any agreed upon interpretations of regulations and final guidance concerning this issue which result from discussions with the Department of Education.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$170,585,000)

**Questioned Costs:** None

**Finding 04-54** *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 8,014 defaulted loans that meet this criteria as of November 11, 2004 that should have been assigned to the USDE but were not. Management indicated it was their practice to only assign approximately 10,000 loans per year.

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 state that while offering no dispute relative to the interpretation of the regulation in question, the Department of Education has consistently indicated their satisfaction with ISAC's process of subrogating loans. Further, understandable time, effort and personnel limitations have prevented the immediate subrogation of all loans which might be eligible for such treatment.

Failure to assign loans to the USDE results in ISAC's noncompliance with federal regulations (34 CFR 682.409). (Finding Code 04-54)

**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.



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**ISAC Response:**

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

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For the Year Ended June 30, 2004

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$170,585,000)

**Questioned Costs:** None

**Finding 04-55** *Inadequate Controls Over Document Imaging*

ISAC does not have an adequate process to ensure that original documentation submitted by lenders for reinsurance claims are accurately and completely imaged for document retention requirements of the Federal Family Education Loan Program.

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

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

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

According to 34 CFR 682.406(a)(3), a guaranty agency is entitled to a reinsurance payment on a loan only if the lender provided accurate collection and payment history. The histories must be sufficient to support guaranty review for claim payment and show that the lender exercised due diligence in collecting the loan meeting the requirements in 34 CFR 682.411.

According to 34 CFR 682.414(a)(ii)(A) and (G) state a guaranty agency shall maintain all documentation supporting the claim filed by the lender and any additional records that are necessary to document its right to receive or retain payments made by the Secretary. 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 ensure that claims packet information is accurately and completely imaged.

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

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Failure to establish adequate controls over document imaging could result in inadequate documentation to support lender claims submitted to the USDE for reinsurance. (Finding Code 04-55, 03-46)

**Recommendation:**

We recommend that ISAC follow the written policies and procedures requiring the completeness and accuracy of imaging be verified before claims packets are destroyed and establish controls to ensure policies and procedures are followed.

**ISAC Response:**

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

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**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$170,585,000)

**Questioned Costs:** None

**Finding 04-56** *Inaccurate Collection Records*

ISAC student loan account records do not agree/reconcile to the collection agencies' reports.

In accordance with 34 CFR section 682.410(b)(6), ISAC is allowed to use collection tools and activities such as engaging a collection agency, once the loan is between 31 and 180 days past due and ISAC has performed its due diligence.

ISAC uses four collection agencies to assist collection efforts of past due loans under the Federal Family Education Loans program. Once ISAC has completed its due diligence activities, which includes (1) calling the borrower and (2) sending collection letters to the borrower, the past due loan is forwarded to one of the collection agencies. The collection agency then performs its collection efforts in an attempt to collect on the past due amount. During our compliance testwork, we noted ISAC loan records do not agree to the monthly reports prepared by the collection agencies. We noted discrepancies between the ISAC reports and the collection agencies in terms of the total number of borrowers and accounts assigned for collection. Below are the loan amounts per ISAC and the loan amounts per the collection agencies as of June 30, 2004.

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

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

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

Failure to maintain accurate loan records and adequately reconcile to collection agency reports could result in inaccurate loan records and an inability to collect delinquent student loans. (Finding Code 04-56, 03-50, 02-47, 01-35, 00-27, ISAC 99-2)

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**Recommendation:**

We recommend the Agency adopt formal guidelines and standards for timely reconciliation of the students' loan accounts assigned to the collection agencies and resolution of differences.

**ISAC Response:**

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

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**State Agency:** Illinois Community College Board (ICCB)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Vocational Education Basic Grants to States

**CFDA # and Program Expenditures:** 84.048 (\$46,678,000)

**Questioned Costs:** None

**Finding 04-57** *Inadequate On-Site Monitoring of Subrecipients*

ICCB is not adequately performing on-site reviews of subrecipients receiving federal awards for the Vocational Education (post-secondary education) program.

The Illinois State Board of Education provided ICCB with an interagency grant of \$18,065,000 to establish vocational education programs at community colleges throughout the State of Illinois. As a pass through entity, ICCB monitors its subrecipients (community colleges) by performing on-site reviews, inspections, and implementation visits, examining annual external audit reports, and comparing budget to actual expenditures. However, the on-site reviews for the Vocational Education (post-secondary education) program do not include any fiscal and administrative review procedures.

During the year ended June 30, 2004, ICCB passed through the following amounts to subrecipients of the Vocational Education program:

| <b>Program</b>                              | <b>Total Fiscal<br/>Year 2004<br/>ICCB<br/>Subrecipient<br/>Expenditures</b> | <b>Total Fiscal<br/>Year 2004<br/>ICCB<br/>Program<br/>Expenditures</b> | <b>%</b> |
|---|--|---|----------|
| Vocational Education Basic Grants to States | \$17,685,000   | \$18,065,124  | 97.9%    |

In accordance with CFR Title 34, Subpart C, Section 80.40, grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity.

In discussing these conditions with ICCB officials, they believed that their programmatic review procedures were adequate and addressed all the applicable federal requirements.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

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 04-57, 03-51)

**Recommendation:**

We recommend ICCB include fiscal and administrative review procedures when performing on-site monitoring procedures for the Vocational Education program.

**ICCB Response:**

The Board agrees with the finding. A fiscal on-site monitoring schedule and instrument have been developed and the monitoring has begun. Due to the timing of the release of the last audit findings, the Board's monitoring could not begin before the next audit cycle began.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Community College Board (ICCB)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Vocational Education Basic Grants to States

**CFDA # and Program Expenditures:** 84.048 (\$46,678,000)

**Questioned Costs:** None

**Finding 04-58** *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

ICCB provided funds to subrecipients of the Vocational Educational Basic Grants to States (post secondary education) program in excess of their immediate cash needs.

We reviewed payments to thirty subrecipients of Vocational Education (post secondary education) program for timely monitoring of cash advance payments. We noted nineteen subrecipients of the Vocational Education (post secondary education) program that received payments on a quarterly basis, for the year ended June 30, 2004. Thus, advances to subrecipients were for more than 30 days of funding needs. Total subrecipient expenditures for the Vocational Education (post secondary education) program administered by the ICCB were \$17,685,000 for the year ended June 30, 2004.

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 80.20 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 discussing these conditions with ICCB personnel, they were of the opinion that funding Vocational Education (post secondary education) on a quarterly basis qualified as advancing only immediate cash needs as the timelines for immediate cash needs are not clearly defined in the regulations..

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 04-58, 03-52)

**Recommendation:**

We recommend ICCB review its advance funding policies and techniques for subrecipients and implement policies, techniques and a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis.



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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**ICCB Response:**

The ICCB concurs with this finding. The subrecipients no longer receive any funds prior to thirty days in advance. Due to the timing of the release of the last audit findings, the Board's could not fix the process for distributing funds before the next audit cycle began. This process has now been completely changed.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Transportation

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program

**CFDA # and Program Expenditures:** 20.106 (\$98,781,000)

**Questioned Costs:** None

**Finding 04-59** *Inadequate Procedures to Ensure Timely Receipt of Contractor Weekly Payroll Certifications*

IDOT did not obtain weekly payroll certifications prior to payment to contractors for the Airport Improvement 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. IDOT's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and the final contract, which provides specifics as to the actual prevailing wage amounts and payroll certification requirements. IDOT keeps a "two week calendar" that indicates the job that each contractor is completing, and monitors the submission of the required certified payrolls.

During our review of the certified payroll reports for the 2003 audit, we noted IDOT did not obtain weekly payroll certifications prior to payment to contractors for the Airport Improvement program. As a result of this finding, IDOT implemented new procedures effective July 1, 2005 which require certified payrolls be received prior to any payments to contractors. Additionally, it is our understanding that IDOT went back (retrospectively) and received payroll certifications for the fiscal year ended June 30, 2004. However, some of these certifications would not have been received prior to payments made during the year. During our review of the certified payroll reports for the 2004 audit, we were unable to determine which weekly payroll certification reports were actually obtained prior to the payments to the contractors because they were not date stamped. IDOT paid approximately \$33.8 million for construction contracts subject to the Davis-Bacon Act during the year ended June 30, 2004.

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 sponsor. 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 the certified payrolls are received in accordance with the required timeframes, and the dates the payrolls are received be documented.

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In discussing these conditions with IDOT officials, they state corrective action has been implemented but since notification that this was a finding in the prior fiscal year 2003 statewide single audit was not received by the Department until the end of fiscal year 2004, corrective action had not taken effect until the beginning of fiscal year 2005.

Failure to obtain certified payrolls could result in contractors not paying the prevailing wage rate to employees. (Finding Code 04-59, 03-53)

#### **Recommendation:**

We recommend IDOT establish procedures to ensure weekly payroll certifications are received prior to payments being made to the contractors. We also recommend IDOT implement procedures to document the dates that the payrolls are received.

#### **IDOT Response:**

The Department agrees with the finding due to the fact that we were unable to implement corrective action earlier during fiscal year 2004 since we had not received notification that this was an issue in the FY 2003 statewide single audit until May of 2004. It would have been beneficial had the auditors notified the Department of this weakness when they became aware of it and not waited for completion of the FY 2003 single audit. We would have preferred to have been more proactive and implemented our corrective action earlier in FY 2004. We would also emphasize that the auditor did not report that any of the certified payrolls were in fact missing and corrective action for the previous finding has been implemented.

In May of 2004 when the Department became aware that the Division of Aeronautics needed to improve its monitoring of certified payroll submissions, The Department implemented a corrective action plan during July 2004. As part of the Department's corrective action for this finding, resident engineers were required to certify that they had received all required certified payrolls from contractors prior to submitting to the Division of Aeronautics any payment requests for reimbursement. Additionally, the Division of Aeronautics reviewed all files which may have been missing certified payrolls and obtained those payrolls from the resident engineers working on the projects. The auditor did not note that any certified payrolls were missing.

A review by the auditors of the Division of Aeronautics' implementation of its corrective action, which was implemented within two months of notification of the finding in May of 2004, would have been helpful to the Department in evaluating the effectiveness of its new process. The new process, which should ensure that certified payrolls are received prior to payments to the contractors, was not implemented until the end of fiscal year 2004.

Though the resident engineers are now required to certify that they have received the certified payrolls from the contractors prior to the Division of Aeronautics making payment to the contractor, Aeronautics will require that the resident engineers note on the certified payrolls the date when they are received from the contractors.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction

**CFDA # and Program Expenditures:** 20.205 (\$ 856,798,000)

**Questioned Costs:** None

**Finding 04-60** *Inadequate Cash Management Procedures*

IDOT does not have adequate 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 Highway Planning and Construction program using the composite clearance method, an interest neutral funding technique. This method requires IDOT to draw funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid for a series of disbursements. However, IDOT did not use this funding method to draw funds for the Highway Planning and Construction program during the year ended June 30, 2004. Specifically, IDOT drew funds on a weekly basis for expenses incurred during the previous seven days during the fiscal year ended June 30, 2004, regardless of when the payments cleared.

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 cash draws are performed in accordance with the TSA.

In discussing these conditions with IDOT officials, they state they draw Federal funds based on what they believe is the recommended methodology and parameters imposed by the Federal Highway Administration.

Failure to draw funds in accordance with the TSA could result in an interest liability to the Federal government. (Finding Code 04-60)

**Recommendation:**

We recommend IDOT implement procedures to ensure cash draws are made in accordance with the TSA. If IDOT believes there is a more appropriate funding technique, they should request a modification be made to the Treasury State Agreement which clearly specifies the funding technique to be followed.

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#### **IDOT Response:**

The Department agrees with the finding.

The Department draws Federal funds based on the recommended parameters imposed by the Federal Highway Administration (FHWA). FHWA considers the Department's methodology to be interest neutral; therefore, an interest liability to the Federal government could not accrue with this methodology.

The Department calculates its clearance pattern every year based on the dollar weighted average time it takes for the Federal funds to be paid out for a series of disbursements and it is typically near zero days or slightly negative. The Department cannot request Federal funds in advance.

The Federal Highway Administration's preferred methodology for the Department to follow to draw down Federal funds is for the State to submit the Federal billings every Tuesday with the State receiving the Federal funds on Thursday. The minimum two days between request and receipt of Federal funds is necessary to compensate for external factors which may result in the Federal bill being rejected due to unexpected processing issues. Even though this is an interest neutral methodology, FHWA monitors the Department's CMIA interest liability computations and requires the Department to make any necessary modifications if clearance patterns are unacceptable. The Department contacted its FHWA Region 5 Administrator for Illinois who reiterated to the Department that they preferred consistency with the methodology being used to draw down Federal funds.

The Department will continue to remain consistent with following FHWA's preferred Federal funds draw down protocols. The Department's TSA could be more accurate in explaining the FHWA methodology that is followed. The Department will revise the TSA to reflect the methodology being used to draw down federal funds.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction  
Airport Improvement Program

**CFDA # and Program Expenditures:** 20.205 (\$856,798,000)  
20.106 (\$98,781,000)

**Questioned Costs:** Cannot be determined

**Finding 04-61** *Inaccurate Interest Liability Calculation*

IDOT did not properly calculate the interest liability for the Highway Planning and Construction and the Airport Improvement programs for the year ended June 30, 2004.

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 requires an annual interest calculation if an agency is following a funding technique that is not interest neutral, or if the agency does not follow the funding technique required by the TSA. For the year ended June 30, 2004, IDOT was required to perform an interest liability calculation for both the Highway Planning and Construction and the Airport Improvement programs.

The TSA requires the interest liability to be calculated for these programs based on the average daily (cash) balance. The average daily balance is to be calculated using the dollar weighted average time (days) between the deposit date from the U.S. Treasury and the date the warrant (check) is estimated to clear the State's account based on a statistical sample of expenditures during the year. This estimate requires the State to calculate and certify to the US Treasury a clearance pattern which represents the average number of days between the issuance of a warrant and the date the warrant clears the State's account.

During our testwork over the interest liability calculation for the federal fiscal year ended September 30, 2004, we noted IDOT improperly used a simple average time instead of the dollar-weighted average time in calculating the average daily balance.

According to the Treasury-State Agreement signed between the U.S. Department of Treasury and the State of Illinois, IDOT is required to calculate an interest liability on federal funds for the Highway Planning and Construction and the Airport Improvement programs based on the average daily (cash) balance times the average equivalent yield of the 13-week Treasury bills auctioned during the year. The average daily balance is to be calculated using the dollar weighted average time (days) between the deposit date from the U.S. Treasury and the date the warrant (check) is estimated to clear the State's account. 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 interest liability calculation is performed in accordance with the TSA.

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In discussing these conditions with IDOT officials, they state that they should have remained more mindful of the Treasury State agreement requirements.

Failure to calculate the interest liability in accordance with the TSA could result in an underpayment of an interest liability to the federal government. (Finding Code 04-61)

#### **Recommendation:**

We recommend IDOT recalculate the interest liability for the year ended June 30, 2004 using the methodology stated in the TSA. A review of the interest liability calculation should be performed by an independent person that is knowledgeable of the TSA requirements. Additionally, IDOT should establish written procedures for the calculation of the interest liability to ensure that it is performed in accordance with the TSA.

#### **IDOT Response:**

The Department agrees with the finding. Corrective action, however, was implemented prior to notification that this was a finding.

The initial calculations of the interest liabilities for both the Airport Improvement and Highway Planning and Construction programs were completed on December 7, 2004. At that time, the auditors had questions regarding IDOT's calculation methodology. The Department's Audit Section contacted CMIA experts with the U. S. Treasury for clarification. When the Department's Audit Section became aware that the calculations may need revision, the calculations and reports were revised utilizing the dollar weighted average methodology prescribed in the Treasury State Agreement. The revised calculations and reports were issued on December 30, 2004 prior to the December 31, 2004 deadline for submittal to the Governor's Office of Management and Budget. The revised work papers and calculations were provided to the auditors for review on January 19, 2005.

The Department's Audit Section will revise its written procedures for the FY 2005 interest liability calculations to ensure that the dollar weighted average methodology prescribed in the Treasury State Agreement is utilized. As part of ensuring that an independent review is made of the interest calculation, the Department typically relies on the CMIA expertise of the Auditor General's audit firm who annually reviews the CMIA calculations.

#### **Auditors' Comment:**

The inaccurate interest liability calculation was identified by the auditors in the conduct of the audit for the year ended June 30, 2004. IDOT subsequently modified the interest calculation after discussions with the U.S. Treasury.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** U.S. Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction Program  
Airport Improvement Program

**CFDA # and Program Expenditures:** 20.205 (\$856,798,000)  
20.106 (\$98,781,000)

**Questioned Costs:** None

**Finding 04-62** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients. Additionally, IDOT is not reviewing the OMB Circular A-133 audit reports received within sixty days, and is not issuing timely management decisions within six months.

IDOT passed through \$71,223,000 and \$40,731,000 to subrecipients of the Highway Planning and Construction and Airport Improvement programs, respectively, during the year ended June 30, 2004. Of the 30 subrecipients selected for test work, the required current year OMB Circular A-133 reports were not received for 20 subrecipients (67%) within nine months after their fiscal year end, and 14 of those reports had not been received as of the date of our test work. Of the six reports that had been received late, the days delinquent ranged from 2 to 214 days. Additionally, there was no documentation of its attempts to collect these reports and follow up with subrecipients.

Of the sixteen reports that had been received by IDOT, 15 of those reports (94%) had not been reviewed within sixty days, and six of those reports (38%) had not been reviewed within six months of receipt. Of the reports that were reviewed, two had general findings related to all federal programs. However, IDOT did not issue a management decision or follow up to ensure the subrecipients took timely and appropriate corrective action.

Per OMB Circular A-133 Compliance Supplement, dated March 2004, a pass-through entity is required to monitor the activities of subrecipients to provide reasonable assurance that the subrecipients administer the federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipients 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. OMB Circular A-133 audit reports are due within 180 days after the subrecipient's year-end. Additionally, pass-through entities are required to issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

In discussing these conditions with IDOT officials, they state they have been working to address these issues.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports and follow up on findings to ensure subrecipients take appropriate and timely corrective action could result in federal funds



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being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 04-62, 03-54, 02-48)

#### **Recommendation:**

We recommend IDOT:

- Establish procedures to monitor and follow up on the submission of delinquent OMB Circular A-133 reports from subrecipients. The follow up and correspondence with subrecipients should be documented in the monitoring files.
- Establish procedures to require all subrecipients receiving federal awards to either submit their OMB Circular A-133 reports, or submit a statement that they did not expend more than \$500,000 in federal awards and thus did not have an OMB Circular A-133 audit performed.
- Evaluate the current staffing of the audit section to ensure resources are adequate to review the OMB Circular A-133 audit reports within sixty days of receipt; issue management decisions within 6 months of receipt; and follow up on findings to ensure subrecipients take appropriate and timely corrective action.

#### **IDOT Response:**

The Department agrees with the finding.

The Department's Audit Section has sent out over 500 letters to subrecipients requesting that they submit their OMB Circular A-133 audit reports or certify to IDOT that they did not receive enough in Federal financial assistance to be required to complete and submit an OMB Circular A-133 audit report. The Audit Section has also implemented procedures and a new database system to monitor and track the submission of single audits. The Audit Section's review of the single audit will include a review of subrecipient audit citations to determine whether they would affect the IDOT program. Additional available Audit Section staff is also being retrained to perform these tasks.

Because of the Department's considerable oversight of its transportation programs and projects by trained project managers and resident engineers, the probability of subrecipient noncompliance and malfeasance on IDOT funded projects is greatly reduced.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** U.S. Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction Program  
Airport Improvement Program

**CFDA # and Program Expenditures:** 20.205 (\$856,798,000)  
20.106 (\$98,781,000)

**Questioned Costs:** None

**Finding 04-63** *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 Highway Planning and Construction and the Airport Improvement programs for the year ended June 30, 2004.

During our testwork of 30 subrecipients of the Highway Planning and Construction and the Airport Improvement programs, we noted IDOT did not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients.

Subrecipient expenditures under the federal programs for the year ended June 30, 2004 were as follows:

| <b>Program</b>                            | <b>Total Fiscal<br/>Year 2004<br/>Subrecipient<br/>Expenditures</b> | <b>Total Fiscal<br/>Year 2004<br/>Program<br/>Expenditures</b> | <b>%</b>     |
|---|---|--|--------------|
| Highway Planning and Construction Program | \$71,223,000  | \$856,798,000  | <b>8.3%</b>  |
| Airport Improvement Program               | \$40,731,000  | \$98,781,000   | <b>39.7%</b> |

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.

In discussing these conditions with IDOT officials, they state they needed to better communicate the required information to subrecipients.

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 04-63)

**Recommendation:**

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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 finding.

A memorandum will be issued informing all project and program personnel to ensure that the required information concerning the specific program name and CFDA number are properly communicated and provided to the subrecipients.

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Workforce Investment Act Cluster

**CFDA # and Program Expenditures:** 17.255 / 17.258 / 17.259 / 17.260 (\$187,055,000)

**Questioned Costs:** None

#### **Finding 04-64** *Inadequate Subrecipient Monitoring Procedures*

DCEO does not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients and to ensure management decisions on program findings are issued within six months. Additionally, DCEO did not perform required annual on-site program monitoring for all subrecipients or adequately document the procedures performed.

DCEO receives OMB Circular A-133 audit reports from subrecipients who expend \$500,000 or more of federal awards in their fiscal year. The A-133 audit reports are due to DCEO nine months after the subrecipient's year-end. DCEO performs a desk review of the A-133 audit reports and is required to issue a management decision regarding violations of program requirements (findings) within six months of receipt of the reports. DCEO is also required to perform on-site program and fiscal monitoring on an annual basis for each of its subrecipients. DCEO uses standardized checklists to document the procedures performed for the desk review and on-site monitoring.

DCEO passed through \$103,661,000 to 26 subrecipients of the Workforce Investment Act Cluster during the year ended June 30, 2004. Of the 13 subrecipients selected for test work, we noted the following relating to the OMB Circular A-133 reports required to be submitted by subrecipients:

- Eleven of the OMB Circular A-133 reports had not been received as of the date of our test work (October 15, 2004). These reports ranged from 203 to 415 days late, and there was no documentation of DCEO's attempts to collect delinquent OMB Circular A-133 reports and follow up with subrecipients.
- As of the date of our test work (October 15, 2004), DCEO had not reviewed the OMB Circular A-133 report for one subrecipient that was received on February 2, 2004.

Additionally, DCEO did not perform required annual on-site program monitoring for all of its subrecipients or adequately document the procedures performed for on-site fiscal monitoring. Specifically, we noted the following for the 13 subrecipients selected for test work:

- Six subrecipients did not have an on-site program review during the year.
- Five subrecipients were not issued draft finding letters for the program review within 60 days of the monitoring completion, as per the State plan.
- Questions on the standardized fiscal monitoring checklist for one subrecipient were not answered.
- The standardized fiscal monitoring checklist was not used for three subrecipients.
- Supervisory reviews of the fiscal monitoring checklist were not documented for nine of the subrecipients.

Per the OMB Circular A-133 Compliance Supplement, dated March, 2004, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers

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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 federal regulations. Additionally, 20 CFR 667.410(b)(2)(i) requires that each state must have a monitoring system which provides for annual on-site monitoring reviews of local areas' compliance with the Department of Labor uniform administrative requirements.

In discussing this with DCEO officials, the delinquent OMB Circular A-133 report reviews were an oversight as a result of the transition of the WIA program from IDES to DCEO on July 1, 2003. The reviews correspond to IDES' WIA grants that had an ending date prior to the WIA program transfer to DCEO. Department staff noted that five of the eleven delinquent Circular A-133 reports were received and had no findings related to WIA. The monitoring deficiencies were primarily due to lack of staff as there were several retirements and vacancies when the program transferred from IDES to DCEO. Staff was further constrained due to a required federal data validation project during this audit period.

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 04-64, 03-58)

#### **Recommendation:**

We recommend DCEO establish procedures to:

- Monitor and follow up on the submission of delinquent OMB Circular A-133 reports from subrecipients. Follow up action and correspondence with subrecipients should be documented in the monitoring files.
- Review OMB Circular A-133 reports within sixty days of receipt.
- Ensure program and fiscal monitoring is performed for all subrecipients on an annual basis.
- Ensure on-site reviews are adequately documented using the monitoring checklists and are reviewed timely by a supervisor.

#### **DCEO Response:**

The Department agrees with the finding and has partially implemented corrective action by reorganizing the operational structure of the Workforce Bureau and hiring additional staff to ensure fiscal and programmatic monitoring and subsequent reports can be completed within the required timeframes. The Bureau has adopted processes to ensure the monitoring checklist is adequately documented and the supervisor reviews are completed timely. Various automation efforts for the monitoring instruments are being pursued to improve the effectiveness and efficiency of the monitoring process. The Department will also ensure that the Circular A-133 reviews and reports are completed within the required timeframes or the files have adequate follow-up documentation and correspondence with grantees for late reports

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For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance Benefits

**CFDA # and Program Expenditures:** 17.225 (\$2,800,844,000)

**Questioned Costs:** Cannot be determined

#### **Finding 04-65** *Payment of Unemployment Benefits to Ineligible Individuals*

The Department determined some payments were made for unemployment benefits to ineligible individuals under the Unemployment Insurance (UI) Program.

The UI program administered by IDES provides unemployment benefits to eligible individuals that are able and available to work. During our audit, IDES disclosed that payments were made to individuals who were not eligible to receive benefits under the UI Program. IDES officials referred the matter to outside agencies for investigative review, which is currently pending. Confidentiality requirements restrict the disclosure of information related to a pending investigation, including the amount of any overpayments. As a result, due to the timing of this audit, we were not able to apply other audit procedures to satisfy ourselves as to whether payments were made to eligible individuals of the UI program or to enable us to express an opinion on compliance for this program.

According to the OMB Circular A-133 Compliance Supplement dated March 2004, to be eligible to receive unemployment benefits, (1) the claimant must be in the labor force (2) the claimant's unemployment must be caused by lack of suitable work (3) the claimant must be legally authorized to work, and (4) the claimant must have met the appropriate waiting period (one week) which is the non-compensation period of unemployment in which the claimant was otherwise eligible for benefits.

In discussing these conditions with IDES officials, they stated that they will take immediate action upon completion of the investigation.

Due to our inability to evaluate IDES' compliance with the provisions of laws and regulations related to the processing of UI claims, we were unable to perform sufficient audit procedures to satisfy ourselves whether IDES complied with the requirements that are applicable to the Unemployment Insurance Program. (Finding Code 04-65)

#### **Recommendation:**

We recommend IDES continue to review its procedures for payment of UI benefits and implement changes necessary to ensure benefits are only paid to eligible individuals.

#### **IDES Response**

We concur with the above finding due to the timing of this audit and the confidentiality requirement imposed for the outside investigative review. We expect the information will be available for the 2005 audit upon completion of the investigative review.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Trade Adjustment Assistance – Workers

**CFDA # and Program Expenditures:** 17.245 (\$38,344,000)

**Questioned Costs:** \$211,996

**Finding 04-66** *Payment of Benefits to Ineligible Beneficiaries and Missing Documentation in Client Eligibility Files*

IDES paid Trade Adjustment Assistance (TAA) benefits to ineligible beneficiaries, and was unable to locate case file documentation supporting client eligibility determinations.

The purpose of the TAA and the North American Free Trade Agreement-TAA (NAFTA-TAA) programs are to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The Trade Adjustment Assistance Reform Act of 2002 (TAA Reform Act) repealed the NAFTA-TAA program and created a reformed TAA program, which was implemented beginning November 4, 2002. The objective of the reformed TAA program is to assist individuals who become unemployed or underemployed as a direct or indirect result of increased imports or a shift in production to certain foreign countries to return to suitable employment. Workers certified under TAA or NAFTA-TAA petitions filed prior to November 4, 2002, will continue to be served under the program regulations as they were in effect before November 4, 2002.

The reformed TAA program requires the State to serve as agents of the USDOL for administering the worker adjustment assistance benefit provisions of the Act. Through the State's One Stop Career Centers and other local offices, the State must arrange for training and provide weekly trade readjustment allowances (TRA) for eligible program participants. In addition, eligible individuals may receive a job search allowance, a relocation allowance, and a transportation and/or subsistence allowance for the purpose of attending approved training outside the normal commuting distance of their regular place of residence.

During our test work of the TAA beneficiary payments, we selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In one case, the worker's enrollment date did not occur within 16 weeks of his/her most recent total qualifying separation date, or within 8 weeks of the issuance of the petition certification, whichever is later (the 8/16 week deadline). Thus, the worker was not qualified to receive TRA benefits. Benefits paid to this individual during the year ended June 30, 2004 were \$1,878.
- In six cases, IDES was unable to provide either the training agreement or waiver form. We were unable to determine the worker's actual training enrollment date or date he/she was waived from training to assess compliance with the 8/16 week deadline. Benefits paid to these individuals during the year ended June 30, 2004 were \$52,188.
- In four cases, IDES was unable to provide vocational and training plans. We were unable to determine the worker's entitlement to participate or to be waived from a training program. Benefits paid to these individuals during the year ended June 30, 2004 were \$3,497.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

- In four cases, IDES was unable to provide training agreements and/or the appropriate waiver forms. Benefits paid to these individuals during the year ended June 30, 2004 were \$15,312.
- In twenty-six cases, IDES did not properly approve and/or date the training agreements. We were unable to determine whether: (1) the worker was enrolled in an approved training program; (2) the worker's training start date occurred before the program was approved; and (3) the worker received TRA benefit payments before the training program was approved. Benefits paid to these individuals during the year ended June 30, 2004 were \$119,356.
- In one case, IDES approved the training agreement after the training was scheduled to begin. Benefits paid on behalf of this individual during the year ended June 30, 2004 were \$5,000.
- In sixteen cases, IDES did not properly approve and/or date the vocational and training plan. We were unable to determine whether: (1) the worker was enrolled in a training program before the worker's skills and employment history has been assessed and approved; (2) the training program was necessary; or (3) the worker should have been waived from participating in a training program. Benefits paid to these individuals during the year ended June 30, 2004 were \$14,765.

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.

Section 114(b) and 115(c) of the Trade Adjustment Reform Act of 2002 (Pub. L. No. 107-210) requires that workers must be enrolled in their approved training within eight weeks of the issuance of the certification or within 16 weeks of their most recent qualifying separation, whichever is later, unless this requirement is waived. In accordance with 20 CFR section 617.11, to be eligible for weekly TRA payments, a worker must be enrolled in or have completed an approved job training program, unless a waiver from the training requirement has been issued after a determination is made that training is not feasible or appropriate.

In discussing these conditions with the agency officials, they state that we acknowledge there was not always enough diligence taken in properly indicating the dates of approvals on various forms and in properly documenting the participant's file. Our two-step approval process was cumbersome in that documents were often sent back and forth between the local office and the region office which contributed to the condition of the local office files.

Failure to follow eligibility requirements and maintain source documentation for eligibility determinations results in unallowable costs and ineligible benefit payments. Additionally, failure to properly approve documents supporting the eligibility determinations could result in federal funds being awarded to ineligible beneficiaries. (Finding Code 04-66)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **Recommendation:**

We recommend IDES review its procedures for approving and documenting eligibility determinations in the case files and implement any changes necessary to ensure payments are made only to eligible participants. We also recommend IDES implement procedures to ensure vocational and training plans, training agreements, and applicable waiver forms exist and are properly approved.

#### **IDES Response:**

IDES officially transferred the TAA program to the Department of Commerce and Economic Opportunity (DCEO) per Governor Blagojevich's Executive Order Number 11. This transfer combines all training programs under one agency. Effective with this transfer, DCEO assumed responsibility for the Vocational and Training Plans, Training Agreements and waivers other than the initial waiver that IDES may issue while the client is receiving regular unemployment insurance benefits.

While DCEO is now responsible for the TAA program, it is worth noting that IDES undertook a number of activities to ensure the program is completely in compliance with federal requirements. Some of the work included:

- updating the policy manual and forms,
- creating new waiver forms and procedures,
- assisting in the training of DCEO staff and Local Workforce Investment Area staffs,
- transferring vendors and clients to DCEO,
- conducting a 100% file review for files transferred to DCEO,
- ensuring completeness and accuracy of transferred files,
- developing internal policies and procedures regarding IDES and DCEO roles and responsibilities,
- ongoing meetings with DCEO staff and their grantees to ensure proper implementation.

IDES is confident that the TAA program and the related TRA program are in compliance with federal requirements.

The audit raised a number of specific issues related to individual cases. The audit did not request a detailed defense of these items. While we recognize that errors may have occurred, IDES believes that some of the missing documentation could be obtained if we were provided more time to respond.

#### **Auditors' Comment:**

Program regulations require that only eligible individuals receive benefits and/or services provided under the TAA program. As noted above, IDES was not able to provide the auditors adequate supporting documentation for certain eligibility criteria in a reasonable period of time. Additionally, as the program was transferred to another agency, we do not believe that IDES is in a position to determine that the program is in compliance with all federal requirements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Employment Services Cluster

**CFDA # and Program Expenditures:** 17.207 / 17.801 / 17.804 (\$41,385,000)

**Questioned Costs:** None

**Finding 04-67** *Inadequate Supporting Documentation for Performance Reports*

IDES was unable to provide documentation to support information reported in the ETA 9002 and the VETS 200 performance reports.

The ETA 9002 and the VETS 200 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 Skills Match (ISM) system and the Unemployment Services Wage Information System (WIS). IDES uses a report writer, the DART reporting system, to accumulate the data from the ISM and WIS 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, IDES was unable to provide detail information supporting the accumulation of data in these key line items.

In discussing this with IDES personnel, they stated the DART Reporting subsystem was a new system and we failed to back up the data for an adequate period to allow for retrieval of information.

Failure to provide supporting documentation for the performance reports required for the Employment Services Program inhibits the ability to perform an audit of the program in accordance with OMB Circular A-133 in that it inhibits the auditor's ability to select a sample of data reported to validate the accuracy. (Finding Code 04-67)

**Recommendation:**

We recommend IDES implement procedures to ensure supporting documentation can be provided for the ETA 9002 and the VETS 200 performance reports.

**IDES Response:**

We concur with the finding. IDES has modified its computer processing schedules that are used to create the ETA 9002 and VETS 200 Performance Reports. A copy of the quarterly extract file of data from the Illinois Skills Match system is created and archived prior to being downloaded to the DART Reporting subsystem (a new server based reporting application used to produce federal reports). This change in procedure was effective the reporting quarter ended September 30, 2004. Backups for the December 2004 and March 2005 quarters have also been created. All future quarters will be similarly backed up.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Employment Services Cluster

**CFDA # and Program Expenditures:** 17.207 / 17.801 / 17.804 (\$40,129,000)

**Questioned Costs:** None

**Finding 04-68** *Inadequate Cash Management Procedures*

IDES does not have adequate procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The State of Illinois is required to follow the Treasury State Agreement (TSA), which is negotiated annually with the U.S. Department of the Treasury and details the funding techniques to be used for the draw down of federal funds. The TSA must include federal programs exceeding \$60,000,000 in expenditures, and must be amended at least annually or as needed to add or delete federal assistance programs subject to the TSA. During the year ended June 30, 2004, IDES drew down funds using the modified payment schedule method, a common funding technique prescribed in the TSA, for the Employment Services Cluster. This method requires that the amount of the cash request should be a prorated share of the lesser of (1) the annual grant divided by 24, or (2) the total amount of Federal funds expected to be paid out for program purposes during the year divided by 24. However, this program was not included in the TSA.

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 cash draws are performed in accordance with the U.S. Treasury Regulations.

In discussing this with IDES personnel, they stated that they considered this matter closed because they had complied with the auditors' request to consult with the U.S. Treasury and consider including the program in the Treasury-State Agreement.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 04-68, 03-59)

**Recommendation:**

We recommend IDES implement procedures to ensure cash draws are made in accordance with the U.S. Treasury Regulations.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

#### **IDES Response:**

We concur. IDES thought the funding technique adopted from the Treasury-State Agreement (TSA) for Employment Services (ES) satisfied the A-102 Common Rule of Federal cash management standards. As directed in the auditors' comments, we consulted with the U.S. Treasury and considered including the program in the Treasury-State Agreement (TSA). As a first step, we asked our CMIA (Cash Management Improvement Act) state representative in the Governor's Office of Management and Budget if the state would voluntarily lower the \$60 million threshold, as permitted in the CMIA regulations, to facilitate the inclusion of ES in Illinois' TSA. Permission was denied because this would have the undesirable result of including other federal programs administered by other state agencies.

IDES then consulted with the U.S. Department of the Treasury, Financial Management Service (FMS) whether or not an interest neutral funding technique in a state's TSA could be used for non-TSA programs. On November 18, 2004, FMS sent an e-mail to Illinois' CMIA representative. In FMS' response, they referred to subpart B of the federal rules which broadly states that non-TSA programs should be administered in a way that minimizes the time between drawdowns and disbursements of Federal funds. IDES believes this is accomplished in the agreed to interest neutral funding technique in the TSA that is used for its Unemployment Insurance (UI) program. In conversations with FMS, the CMIA state representative confirmed that it does not matter what funding technique is used, only that the technique minimizes interest liabilities. Federal rules do not prohibit the use of TSA funding techniques for non-TSA programs. Because of the aforementioned efforts by IDES and the state's CMIA representative and the favorable response from FMS, IDES believes they have satisfied the finding recommendations.

However, as a result of the continuation of this finding, we have submitted a second request to our CMIA state representative to request an amendment to the TSA to include ES, to do so without affecting any other federally funded program in Illinois, if possible, and to make it effective retroactively beginning July 1, 2004. Although the State CMIA representative is willing to submit such a request, we understand that approval is at the sole discretion of FMS. If not approved, we will begin drawing funds for ES based on the available Cash Balance as reported on IDES' Daily Cash Position report (CM003) determined by taking the difference between total drawdowns and total vouchers.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Environmental Protection Agency (IEPA)  
**Federal Agency:** US Environmental Protection Agency (USEPA)  
**Program Name:** Capitalization Grants for Clean Water State Revolving Funds  
Capitalization Grants for Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 (\$76,609,000)  
66.468 (\$36,266,000)

**Questioned Costs:** None

**Finding 04-69** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IEPA is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients of the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and Capitalization Grants for Drinking Water State Revolving Fund (DWSRF) programs.

The Illinois Environmental Protection Agency (IEPA) receives OMB Circular A-133 audit reports from subrecipients who expend \$500,000 or more of federal awards in their fiscal year. IEPA reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, IEPA completes a checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, no documentation exists to support that:

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

We did note that IEPA revised the checklist in April 2004 to include a few additional questions, but the checklist is still not adequate to determine whether the audit was adequately performed in accordance with OMB Circular A-133, the federal funds reported in the schedule of expenditures of federal award reconcile to agency records, and whether IEPA programs are appropriately being selected to audit as major programs.

Additionally, we selected 60 subrecipients of the CWSRF and DWSRF programs (30 from each program) and noted the following:

- There were one subrecipient of the CWSRF program and three subrecipients of the DWSRF program that had findings in the OMB Circular A-133 audit report for which IEPA did not perform any follow-up procedures or issue a management decision.
- There was one subrecipient of the DWSRF program for which no OMB Circular A-133 audit report was received. Upon further discussion with management, it was determined that this subrecipient was not included in the database of subrecipients used to track OMB Circular A-133 audit report.
- There were 5 subrecipients of the CWSRF program and 10 subrecipients of the DWSRF program that received less than \$500,000 in federal funds from the IEPA for which IEPA did not request the

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

subrecipients to submit an OMB Circular A-133 report. However, these subrecipients may have received federal assistance from other governmental organizations that collectively would have exceeded the \$500,000 threshold required for subrecipients to have an OMB Circular A-133 audit.

Subrecipient expenditures under the federal programs for the year ended June 30, 2004 were as follows:

| <b>Program</b>   | <b>Total Fiscal<br/>Year 2004<br/>Subrecipient<br/>Expenditures</b> | <b>Total Fiscal<br/>Year 2004<br/>Program<br/>Expenditures</b> | <b>%</b> |
|--|---|--|----------|
| Capitalization Grants for Clean Water State Revolving Funds    | \$76,609,000  | \$76,609,000   | 100%     |
| Capitalization Grants for Drinking Water State Revolving Funds | \$35,483,000  | \$36,266,000   | 97.8%    |

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 project goals are achieved. According to the OMB Circular A-133 compliance supplement, dated March 2004, a pass-through 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 9 months of the end of the subrecipient’s audit period, 2) issue a management decision on audit findings within 6 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 IEPA officials, they state the Agency had revised its procedures based on the previous audit findings and thought were adequate to document that a thorough “desk review” was being conducted.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports 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 04-69, 03-62, 02-55)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**Recommendation:**

We recommend that IEPA properly implement the use of an expanded desk review checklist and any other procedures necessary to document and ensure that a sufficient review is performed on the OMB Circular A-133 reports. Additionally, appropriate follow up procedures should be performed for all subrecipients whose OMB Circular A-133 reports include findings.

**IEPA Response:**

Accepted. The procedures of notification of loan recipients and review of submitted reports will be revised.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Capitalization Grants for Clean Water State Revolving Funds  
Capitalization Grants for Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 (\$76,609,000)  
66.468 (\$36,266,000)

**Questioned Costs:** None

**Finding 04-70** *Failure to Notify Subrecipients of Federal Funding*

IEPA did not provide required program information relative to federal funds passed through to the subrecipients of the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) programs for the entire year ended June 30, 2004.

IEPA did not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients for the entire fiscal year. Additionally, subrecipients receiving less than \$500,000 in federal funding from IEPA were not provided any notification that the funds they received were federal for the entire fiscal year.

Subrecipient expenditures under the federal programs for the year ended June 30, 2004 were as follows:

| Program  | Total Fiscal Year 2004 Subrecipient Expenditures | Total Fiscal Year 2004 Program Expenditures | %     |
|--|--|---|-------|
| Capitalization Grants for Clean Water State Revolving Funds    | \$76,609,000                                     | \$76,609,000                                | 100%  |
| Capitalization Grants for Drinking Water State Revolving Funds | \$35,483,000                                     | \$36,266,000                                | 96.4% |

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.

In discussing these conditions with IEPA officials, they state the Agency revised its notification procedures as soon as it received the fiscal year 2002 audit report which contained the original audit finding on this issue. However, that report was not received until July 24, 2003. Since the report was received after the beginning of the fiscal year, it was not feasible to implement the revised procedures for the entire fiscal year.

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



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 04-70, 03-63, 02-56)

**Recommendation:**

We recommend IEPA continue its current process, implemented during the 2004 fiscal year, for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

**IEPA Response:**

Accepted. The Agency agrees with your recommendation that we continue the current process.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

**State Agency:** Illinois Department of Corrections (IDOC)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Commerce (USDOC)  
US Department of Justice (USDOJ)  
US Department of Labor (USDOL)  
US Department of Education (USDOE)  
US Department of Health and Human Services (USDHHS)  
US Department of Homeland Security (USDHS)

**Program Name:** Child Nutrition Cluster  
Technology Opportunities  
Juvenile Accountability Incentive Block Grants  
Juvenile Justice and Delinquency Prevention – Allocation to States  
Crime Victim Assistance  
Byrne Formula Grant Program  
Violent Offender Incarcerations and Truth In Sentencing Incentive Grants  
Violence Against Women Formula Grants  
Residential Substance Abuse Treatment for State Prisoners  
State Criminal Alien Assistance Program  
Employment and Training Administration Pilots, Demonstrations, and Research  
Projects  
Youth Opportunity Grants  
Adult Education – State Grant Program  
Title I Program for Neglected and Delinquent Children  
Special Education – Grants to States  
Vocational Education – Basic Grants to States  
Safe and Drug-Free Schools and Communities – State Grants  
State Grants for Innovative Programs  
Special Education – State Program Improvement Grants for Children with Disabilities  
Grants to States for Incarcerated Youth Offenders  
Improving Teacher Quality State Grants  
Temporary Assistance for Needy Families  
HIV Prevention Activities – Health Department Based  
State and Local Homeland Security Exercise Support

**CFDA # and Program Expenditures:** 10.553 / 10.555 / 10.556 / 10.559 (\$324,877,000)  
11.552 (\$132,000)  
16.523 (\$4,587,000)  
16.540 (\$4,043,000)  
16.575 (\$17,676,000)  
16.579 (\$15,632,000)  
16.586 (-\$789,000)  
16.588 (\$4,259,000)  
16.593 (\$2,953,000)  
16.606 (\$3,925,000)  
17.261 (\$299,000)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

17.263 (\$1,046,000)  
84.002 (\$22,638,000)  
84.013 (\$3,062,000)  
84.027 / 84.173 (\$410,047,000)  
84.048 (\$46,678,000)  
84.186 (\$16,908,000)  
84.298 (\$16,182,000)  
84.323 (\$1,591,000)  
84.331 (\$869,000)  
84.367 (\$115,297,000)  
93.558 (\$499,898,000)  
93.940 (\$4,784,000)  
97.006 (\$912,000)

**Questioned Costs:** None

**Finding 04-71** *Failure to Adequately Establish a Centralized Federal Accounting Function*

IDOC does not have a centralized federal accounting function to account for all federal funds received and expended by the Department.

During fiscal year 2004, IDOC expended \$17,275,000 of federal funds from 24 separate federal programs. Funding was received from seven federal entities and several additional pass through entities.

The Department's current system used to account for federal funds consists of various subsystems maintained by individual grant administrators resulted in inefficiencies and less than effective financial controls. We noted the following weaknesses with this system:

- There is no standardized methodology for accounting for individual grant programs. Records are maintained on computer spreadsheet programs and the Accounting Information System.
- There is no standardized reconciliation process. Two area grant administrators reconcile their individual grant records to various internal Department or Comptroller reports. There is no consistency in the reconciliation process.
- Due to lack of coordination for reporting federal financial information to the State Comptroller as part of the annual GAAP reporting process, information for the statewide schedule of expenditures of federal awards had to be compiled from several accounting sources.
- IDOC was unable to provide the status of federal grant activity on a Department-wide basis at any particular point in time without significant effort in compiling and summarizing totals.

In discussing this with IDOC officials, they stated the Department was in the process of installing a centralized accounting system for its grant unit during fiscal year 2003. The new system will be fully implemented effective July 1, 2004.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

Good business practice dictates that IDOC develop an efficient standardized federal accounting system that can provide management with the information necessary to properly account for and administer their federal programs. (Finding Code 04-71, 03-64, 02-62, 01-50, 00-35, IDOC 99-1)

#### **Recommendation:**

We recommend IDOC implement a standardized, centralized federal accounting function that integrates with their primary accounting system. IDOC should also implement standardized procedures for reconciling to Comptroller records and providing accurate information to the Comptroller as part of the annual GAAP reporting process.

#### **IDOC Response:**

Recommendation implemented. The Department has installed a centralized accounting system for the grants unit. Both grant programs were consolidated into a single Grants Unit effective July 1, 2004. The oversight for all federal funding is now centralized. Standard reconciliation procedures were developed. A supervisory review is performed of reported information to help ensure accuracy and timeliness.

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Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2004

**State Agency: Illinois Environmental Protection Agency (IEPA)**

**Prior Year Finding 03-11**

IEPA did not accurately report its federal expenditures to the Illinois Office of the Comptroller in a timely manner. In the current audit period, IEPA completed its SCO forms within required deadlines.

**State Agency: Illinois Department of Corrections (IDOC)**

**Prior Year Finding 03-12**

IDOC did not accurately report its federal expenditures to the Illinois Office of the Comptroller in a timely manner. In the current audit period, IDOC completed its SCO forms within required deadlines.

**State Agency: Illinois Department of Human Services (IDHS)**

**Prior Year Finding 03-19**

IDHS does not have an adequate process to determine whether maintenance of effort expenditures for its Temporary Assistance for Needy Families (TANF) program are adequately supported. In the current audit period, IDHS implemented procedures to receive underlying supporting documentation for maintenance of effort expenditures from other state agencies. During our review of maintenance of effort expenditures, IDHS was able to provide supporting documentation for its maintenance of effort expenditures.

**Prior Year Finding 03-22**

IDHS did not accurately allocate costs to its federal programs in accordance with the Public Assistance Cost Allocation Plan (PACAP). In the current audit period, IDHS revised the PACAP allocation workpapers to conform its cost allocations with the methodology included in the PACAP.

**Prior Year Finding 03-27**

IDHS did not properly re-certify its clearance patterns specified in the Treasury-State Agreement related to cash draws for the Food Stamps, Vocational Rehabilitation (VR), and Social Security Disability Insurance (SSDI) programs. In the current audit period, the clearance patterns were recertified by IDHS.

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### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2004

**State Agency: Illinois Department of Public Aid (IDPA)**

#### **Prior Year Finding 03-31**

IDPA did not accurately allocate costs to its federal programs in accordance with the statewide Early Retirement Incentive (ERI) Cost Allocation Plan. In the current audit period, IDPA adjusted the claims for its federal program to report amounts allocated through the ERI Cost Allocation Plan.

**State Agency: Illinois Department on Aging (IDOA)**

#### **Prior Year Finding 03-37**

IDOA did not review the OMB Circular A-133 audit report received from one of its subrecipients. In the current audit period, IDOA appropriately performed a desk review of this subrecipient.

**State Agency: Illinois State Board of Education (ISBE)**

#### **Prior Year Finding 03-38**

ISBE did not have adequate procedures to reconcile the “cash position” of the Child Nutrition Cluster (CNC) and Child and Adult Care Food programs (CACFP). Additionally, ISBE did not return excess funds to the USDA in a timely manner. During our current year testwork, we noted ISBE properly reconciled the “cash position” of the CNC and CACFP programs and returned the appropriate funds to the USDA; however, the reconciliations for the first ten months of the year were not completed until April 2004 as reported in finding 04-51.

#### **Prior Year Finding 03-39**

ISBE did not obtain approval from the State of Illinois’ (State) cognizant federal agency (US Department of Health and Human Services) prior to claiming reimbursement for the lump sum payouts of accrued vacation and sick and personal leave for employees who terminated employment under an early retirement program of the State. During our current year testwork, we noted ISBE did not expend any federal funds for any early retirement programs of the State.

#### **Prior Year Finding 03-42**

ISBE provided funds to subrecipients of the Special Education Cluster and Vocational Educational Basic Grants to States (Vocational Education) programs in excess of their immediate cash needs. During our review of subrecipient payments in the current audit period, we noted ISBE implemented additional review procedures to ensure cash payments to subrecipients did not exceed thirty days cash need.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2004

#### **Prior Year Finding 03-43**

ISBE did not complete all of its monthly reconciliation between the Federal Grants Administration and Payment System (GAPS) and the Agency's Management Information Database Accounting System (MIDAS). During our current year testwork, we noted that monthly reconciliations were prepared and prepared timely.

**State Agency:** Illinois Student Assistance Commission (ISAC)

#### **Prior Year Finding 03-47**

ISAC did not reconcile cash receipts to cash posting in the loan subsidiary ledger system (Odyssey) on a timely basis. In the current audit period, ISAC reconciled cash receipts to cash postings in the loan subsidiary ledger system on a timely basis.

#### **Prior Year Finding 03-48**

ISAC did not accurately report loan information in the quarterly Guaranty Agency Financial Reports (ED Form 2000). The differences noted were historical differences that ISAC was not able to reconcile in prior years due to system limitation of specific loan information. With the implementation of the new Odyssey system, ISAC reconciled the loan information and recorded adjustments so that the loan information is in agreement with the Guaranty Agency Financial Reports.

#### **Prior Year Finding 03-49**

ISAC did not maintain documentation to support Credit Bureau Reports. In the current audit period, ISAC began to retain all information for each borrower that has been submitted to the credit bureaus. The electronic file that is sent to the three credit bureaus is stored on the mainframe immediately after receipt is confirmed.

**State Agency:** Illinois Department of Transportation (IDOT)

#### **Prior Year Finding 03-55**

IDOT did not properly re-certify its clearance pattern specified in the Treasury- State Agreement related to administrative cash draws for the Highway Planning and Construction program. In the current audit period, IDOT properly re-certified its clear pattern.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2004

**State Agency: Illinois Department of Commerce and Economic Opportunity (DCEO)**

**Prior Year Finding 03-56**

Adequate supporting documentation does not exist to substantiate payroll claimed for federal reimbursement under the Low Income Home Energy Assistance Program (LIHEAP) and Community Service Block Grant (CSBG) programs administered by the DCEO for the period from July 1, 2002 through March 31, 2003. In the current audit period, DCEO implemented procedures to require employees to prepare effort certification on a semi-monthly basis.

**Prior Year Finding 03-57**

DCEO does not monitor earmarking requirements related to energy needs reduction for the Low Income Home Energy Assistance program (LIHEAP). In the current audit period, DCEO restructured the format of the program budget to enable monitoring of the earmarking requirements on a monthly basis.

**State Agency: Illinois Department of Employment Security (IDES)**

**Prior Year Finding 03-60**

IDES did not review or re-certify the accuracy of the clearance patterns specified in the Treasury-State Agreement related to administrative cash draws for the WIA Dislocated Workers and UI programs. In the current audit period, IDES properly re-certified its clearance pattern.

**Prior Year Finding 03-61**

IDES did not include the WIA Dislocated Worker program in the Treasury-State Agreement. In the current audit period, this program was transferred to DCEO and was included in the 2005 Treasury-State Agreement.