

# REPORT DIGEST

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

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

For the One Year Ended:  
June 30, 2007

### Summary of Findings:

|                          |    |
|--------------------------|----|
| Total this audit         | 87 |
| Total last audit         | 95 |
| Repeated from last audit | 59 |

Release Date:  
June 30, 2008



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

To obtain a copy of the Report contact:  
Office of the Auditor General  
Iles Park Plaza  
740 E. Ash Street  
Springfield, IL 62703  
(217)782-6046 or TTY (888) 261-2887

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## SYNOPSIS Background

- ◆ The State expended \$16.7 billion from federal awards in FY 07.
- ◆ A total of 57 federal programs were classified and audited as major programs at seventeen (17) State agencies. These programs constituted approximately 95.2% of all federal spending or about \$15.9 billion.
- ◆ Overall, 44 State agencies expended federal financial assistance in FY 07. Ten (10) State agencies accounted for about 97.1% of federal dollars spent.

### Statewide Finding - Financial Reporting

- ◆ The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate schedule of expenditures of federal awards. As a result, the State has a *significant deficiency*<sup>1</sup> on all federal programs.

### Significant Agency Findings Classified as a *Material Weakness*<sup>2</sup> Resulting in An Auditor Qualification

- ◆ The Department of Human Services (DHS) has a *material weakness*<sup>2</sup> for:
  - failing to perform re-determinations of eligibility within the time-frames prescribed by regulation for the Temporary Assistance for Needy Families, State Children's Health Insurance, and Medicaid programs.
  - weakness over maintaining and controlling beneficiary case file documents of the Food Stamps, TANF, SCHIP and Medicaid programs.
  - failing to properly determine eligibility within program regulations for the Medicaid program.
  - inadequate procedures to prevent individuals convicted of drug felonies from receiving benefits under the Temporary Assistance for Needy Families programs.
  - failing to enforce sanctions required by the State Plan for individuals receiving benefits from the Temporary Assistance for Needy Families program.
  - making unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services-Vocational Rehabilitation Grants to States program.
- ◆ The Department of Healthcare and Family Services (HFS) has a *material weakness* for using a passive process in its eligibility redeterminations for the State Children's Health Insurance and Medicaid programs.

- ◆ The Department of Children and Family Services has a *material weakness*:
  - due to missing case file documentation to support eligibility determinations for beneficiaries of both the Foster Care Title IV-E and Adoption Assistance programs.
  - due to a failure to ensure that judicial determinations were made in court rulings for the Foster Care Title IV-E.
  - due to making adoption assistance benefits payments that were not properly supported by adoption assistance agreements under the Adoption Assistance program.
- ◆ The Department of Public Health (DPH) has a *material weakness* for:
  - a lack of an adequate process for determining client eligibility of the HIV Care Formula Grants program.
  - a *Disclaimer*<sup>3</sup> on the Immunizations Grants program due to agency records not providing total population of vaccines supplied by the federal government or an accounting of which vaccine disbursements were federally funded.
- ◆ The State Board of Education has a *material weakness* for:
  - not sanctioning a Local Education Agency that did not meet the comparability of services requirement under the Title I Grants to Local Educational Agencies program.
  - Received an *adverse*<sup>4</sup> opinion due to noncompliance with the allowable costs/cost principles, eligibility and subrecipient monitoring requirements of the Reading First State Grants program.
- ◆ The Student Assistance Commission has a *material weakness* due to not complying with the regulations regarding submission and processing of reinsurance claims of the Federal Family Education Loan program.
- ◆ The Department of Transportation has a *material weakness* due to not obtaining certifications from subrecipients for not being suspended or debarred from Federal participation for the Airport Improvement program.

### **Findings Involving Multiple Agencies**

- ◆ The Departments of Children and Family Services (DCFS), Public Health (DPH), Illinois Community College Board (ICCB), and the State Board of Elections (SBOE) have a *material weakness* due to inadequate monitoring of subrecipient audit reports for federal programs.
- ◆ The Departments on Aging (DOA), Public Health (DPH), Illinois State Board of Education (ISBE), Transportation (DOT), and the State Board of Elections have a *material weakness* due to inadequate and/or lack of on-site monitoring of subrecipients of federal awards.

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

<sup>1</sup>*Significant Deficiency*: Matters that represent a significant deficiency in the design or operation of internal control. This deficiency could adversely affect an agency's ability to initiate, record, process and report financial data.

<sup>2</sup>*Material weakness*: An internal control deficiency that is a significant deficiency. The magnitude of the condition(s) noted raises the risk that noncompliance could occur and not be detected by employees in the normal course of performing their assigned function.

<sup>3</sup>*Disclaimer*: A condition occurring in the audit where the auditor was unable to obtain sufficient evidential matter. This condition resulted in an inability to audit the program as required by federal regulations.

<sup>4</sup>*Adverse*: A condition where non-compliance is so significant that the auditor concluded that the agency did not comply with requirements of the program as a whole.

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

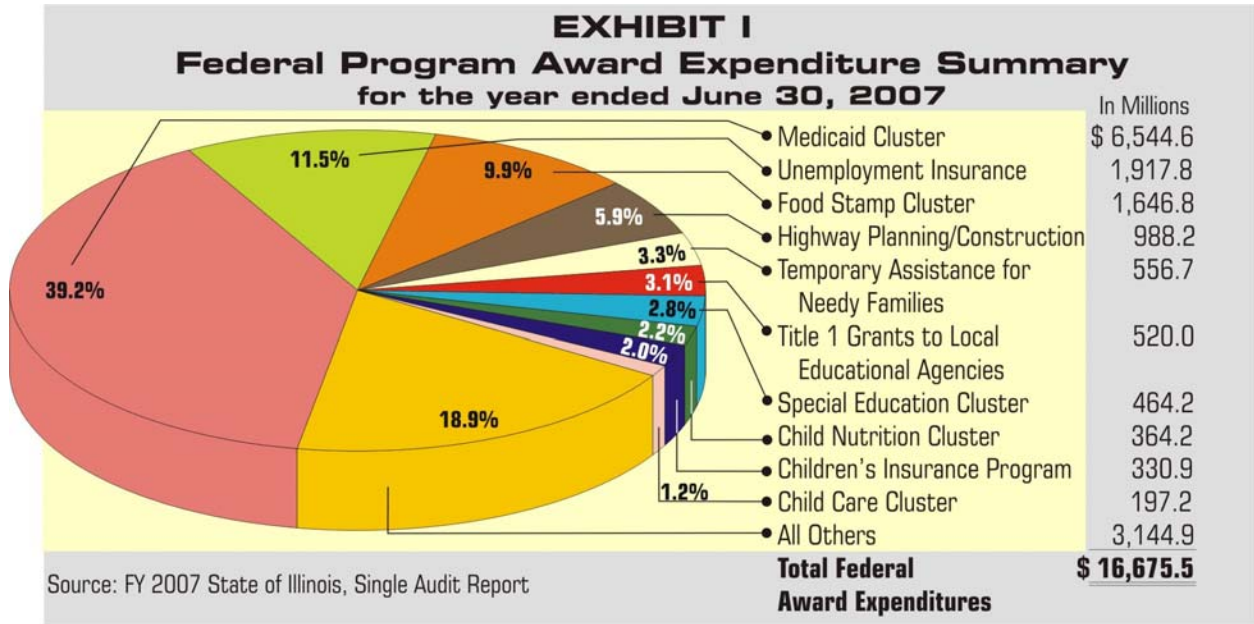
| <b>FINANCIAL ACTIVITIES</b>   | <b>(In Thousands of Dollars)</b> |                                   | <b>FY 2007</b> |
|---|----------------------------------|-----------------------------------|----------------|
| <b>EXPENDITURES BY PROGRAM</b>  | <b>Amount</b>                    | <b>Percent</b>                    |                |
| <b>Major Programs</b>   |                                  |                                   |                |
| Medicaid Cluster.....   | \$6,544,606                      | 39.2%                             |                |
| Unemployment Insurance .....  | 1,917,798                        | 11.5%                             |                |
| Food Stamp Cluster .....  | 1,646,762                        | 9.9%                              |                |
| Highway Planning and Construction .....   | 988,207                          | 5.9%                              |                |
| Temporary Assistance for Needy Families .....                                       | 556,726                          | 3.3%                              |                |
| Title I Grants to Local Educational Agencies .....                                  | 519,959                          | 3.1%                              |                |
| Special Education Cluster .....   | 464,244                          | 2.8%                              |                |
| Child Nutrition Cluster .....   | 364,197                          | 2.2%                              |                |
| State Children's Insurance Program .....  | 330,917                          | 2.0%                              |                |
| Child Care Cluster .....  | 197,141                          | 1.2%                              |                |
| Foster Care – Title IV-E .....  | 194,295                          | 1.2%                              |                |
| Federal Family Education Loans .....  | 193,028                          | 1.2%                              |                |
| Special Supplemental Nutrition Program for Women, Infants & Children .....          | 187,330                          | 1.1%                              |                |
| Workforce Investment Act Cluster .....  | 163,864                          | 1.0%                              |                |
| Low Income Home Energy Assistance Program .....                                     | 138,522                          | 0.8%                              |                |
| Airport Improvement Program .....   | 132,371                          | 0.8%                              |                |
| Child Support Enforcement .....   | 128,591                          | 0.8%                              |                |
| Improving Teacher Quality State Grants .....  | 113,795                          | 0.7%                              |                |
| Social Services Block Grant .....   | 109,206                          | 0.7%                              |                |
| Child and Adult Care Food Program .....   | 108,492                          | 0.6%                              |                |
| Rehabilitation Services – Vocational Rehabilitation Grants to States .....          | 89,994                           | 0.5%                              |                |
| Adoption Assistance .....   | 89,317                           | 0.5%                              |                |
| Block Grants for Prevention and Treatment of Substance Abuse.....                   | 67,918                           | 0.4%                              |                |
| Social Security Disability Insurance .....  | 62,153                           | 0.4%                              |                |
| Immunization Grants .....   | 54,627                           | 0.3%                              |                |
| Homeland Security Cluster.....  | 53,990                           | 0.3%                              |                |
| Vocational Education - Basic Grants to States .....                                 | 46,314                           | 0.3%                              |                |
| Aging Cluster.....  | 44,118                           | 0.3%                              |                |
| Centers for Disease Control & Prevention-Investigations & Technical Assistance..... | 42,662                           | 0.3%                              |                |
| Twenty-First Century Community Learning Centers .....                               | 40,554                           | 0.2%                              |                |
| HIV Care Formula Grants.....  | 39,853                           | 0.2%                              |                |
| Employment Services Cluster.....  | 38,238                           | 0.2%                              |                |
| Help America Vote Act Requirements Payments .....                                   | 33,385                           | 0.2%                              |                |
| Food Donation .....   | 32,721                           | 0.2%                              |                |
| Disaster Grants Public Assistance (Presidentially Declared Disasters) .....         | 32,589                           | 0.2%                              |                |
| Reading First State Grants .....  | 30,753                           | 0.2%                              |                |
| Community Services Block Grant .....  | 30,032                           | 0.2%                              |                |
| Community Development Block Grants/State's Program .....                            | 25,889                           | 0.2%                              |                |
| Trade Adjustment Assistance – Workers.....  | <u>25,759</u>                    | <u>0.1%</u>                       |                |
| Total Major Programs .....  | \$15,880,917                     | 95.2%                             |                |
| Non-Major Programs .....  | <u>794,538</u>                   | <u>4.8%</u>                       |                |
| <b>TOTAL EXPENDITURES .....</b>   | <b><u>\$16,675,455</u></b>       | <b><u>100.0%</u></b>              |                |
| <b>Federal Agencies Providing Funding:</b>  | <b>Total</b>                     | <b>Major Program Expenditures</b> |                |
| U.S. Department of Health and Human Services .....                                  | \$8,740,423                      | \$8,568,531                       |                |
| U.S. Department of Agriculture .....  | 2,372,785                        | 2,339,502                         |                |
| U.S. Department of Labor .....  | 2,156,092                        | 2,145,659                         |                |
| U.S. Department of Education .....  | 1,651,613                        | 1,498,641                         |                |
| U.S. Department of Transportation .....   | 1,164,524                        | 1,120,578                         |                |
| U.S. Department of Homeland Security.....   | 128,086                          | 86,579                            |                |
| U.S. Environmental Protection Agency .....  | 120,940                          | 0                                 |                |
| U.S. Department of Justice.....   | 94,064                           | 0                                 |                |
| Social Security Administration .....  | 62,713                           | 62,153                            |                |
| U.S. Department of Defense.....   | 36,782                           | 0                                 |                |
| All other federal agencies.....   | <u>147,433</u>                   | <u>59,274</u>                     |                |
|   | <u>\$16,675,455</u>              | <u>\$15,880,917</u>               |                |
| <b>STATISTICAL INFORMATION</b>  | <b>FY 2007</b>                   |                                   |                |
| Total Number of Programs in the Schedule of Expenditures of Federal Awards.....     | 341                              |                                   |                |
| Number of Federal Programs Audited .....  | 57                               |                                   |                |
| Total Number of State Agencies Spending Federal Funds.....                          | 44                               |                                   |                |
| Number of State Agencies Audited for Single Audit Requirements .....                | 17                               |                                   |                |

## INTRODUCTION

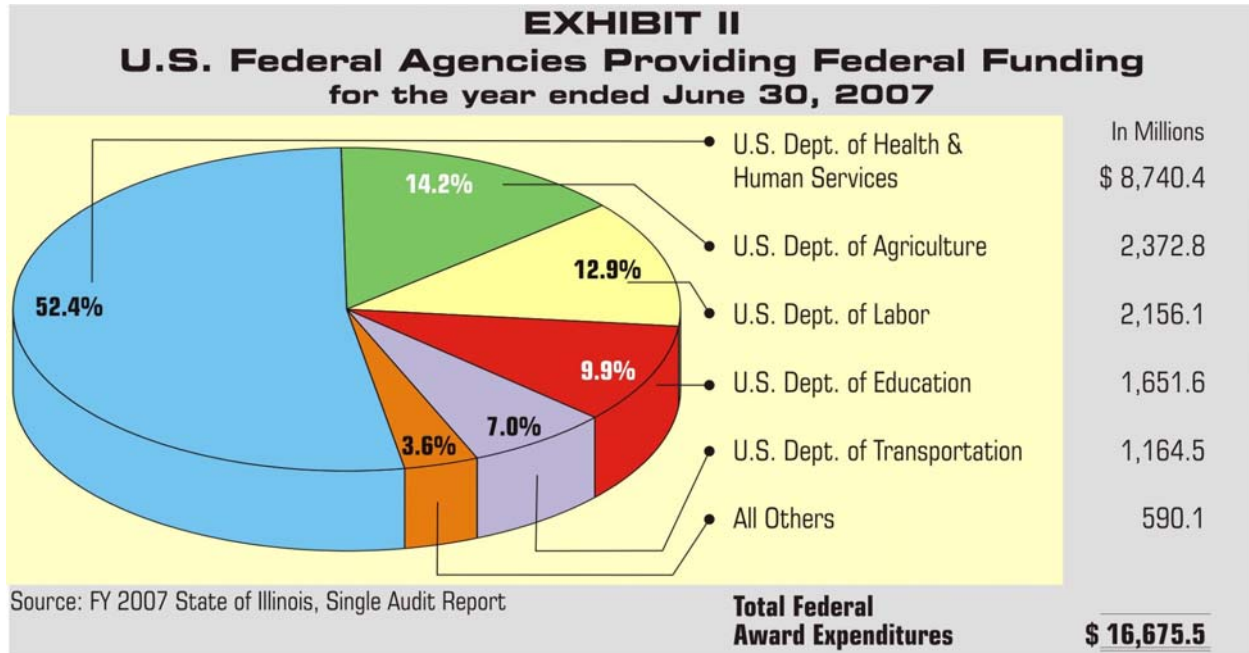
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY 07 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 44 State agencies expended federal financial assistance in FY 07. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of \$16.7 billion for the year ended June 30, 2007. Overall, the State participated in 341 different federal programs, however, 10 of these programs or program clusters accounted for approximately 81.8% of the total federal award expenditures. (See Exhibit I)



The funding for the 341 programs was provided by 22 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY 07.

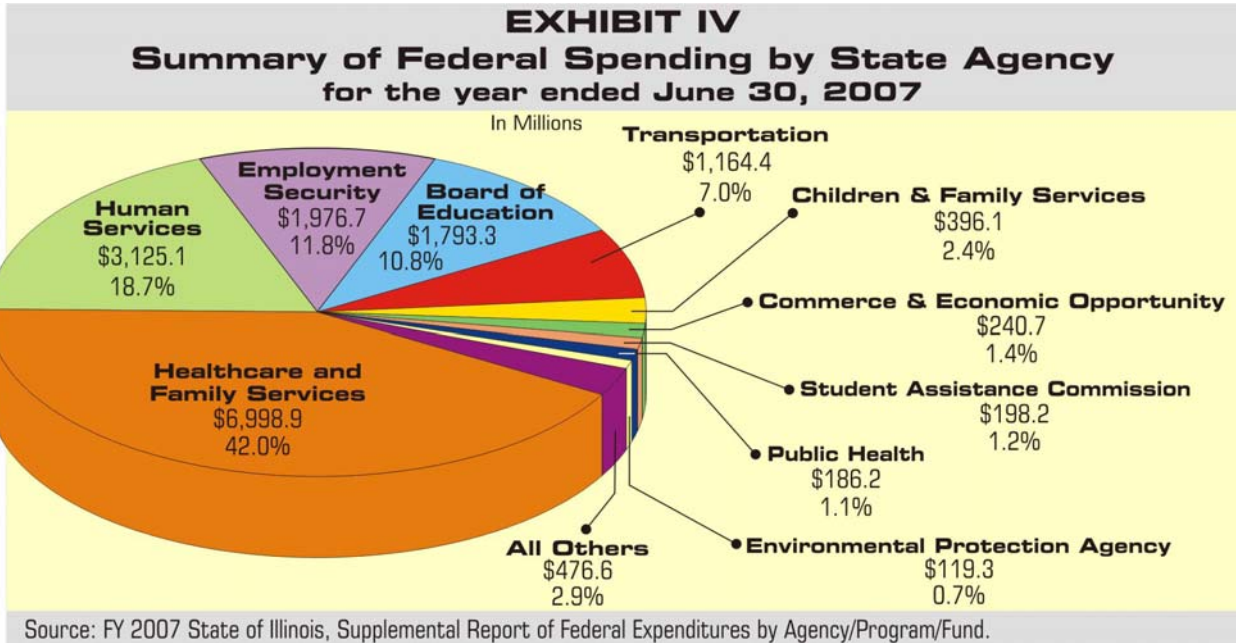


A total of 57 federal programs (or 39 programs or program clusters) were identified as major programs in FY 07. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

**EXHIBIT III**  
**Classification of Federal Programs**  
**“Major vs. Non-Major”**  
**and Related Federal Award Expenditures**  
**for the year ended June 30, 2007**

| Audit Coverage     | No. | Expenditures (in millions) | %      |
|--------------------|-----|----------------------------|--------|
| Major Programs     | 57  | \$15,880.9                 | 95.2%  |
| Non-Major Programs | 284 | 794.6                      | 4.8%   |
| Total              | 341 | \$16,675.5                 | 100.0% |

Ten State agencies accounted for approximately 97.2% of all federal dollars spent during FY 07 as depicted in Exhibit IV.



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

The auditors' report contained a disclaimer, adverse and qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 25-29 of the audit.

**Disclaimer**

The auditors' disclaimed an opinion on the Immunization Grants program as a result of an inability to obtain a complete population of federal expenditures to verify vaccines were used for activities allowed or that subrecipients were monitored for compliance with the applicable program regulations. The auditors were unable to express, and did not express an opinion of the Department of Public Health's compliance with the requirements applicable to its Immunization Grants program.

| State Agency                   | Federal Program     | Compliance Requirement                                      | Finding Number | Page Numbers |
|--------------------------------|---------------------|---|----------------|--------------|
| IL Department of Public Health | Immunization Grants | Allowable Costs/Cost Principles and Subrecipient Monitoring | 07-43          | 125-126      |

**Adverse**

The auditors’ issued an adverse opinion in their report on the State’s failure to comply with certain requirements that are applicable to its Reading First State Grants major program.

| <b>State Agency</b>         | <b>Federal Program</b>     | <b>Compliance Requirement</b>               | <b>Finding Number</b> | <b>Page Numbers</b> |
|-----------------------------|----------------------------|---|-----------------------|---------------------|
| IL State Board of Education | Reading First State Grants | Allowable Costs/Cost Principles/Eligibility | 07-51                 | 141-142             |
| IL State Board of Education | Reading First State Grants | Subrecipient Monitoring                     | 07-53                 | 145-147             |

**Qualifications**

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

| <b>State Agency</b>                             | <b>Federal Program</b>   | <b>Compliance Requirement</b>                                    | <b>Finding Number</b> | <b>Page Numbers</b> |
|---|--|--|-----------------------|---------------------|
| IL Department of Human Services                 | Temporary Assistance for Needy Families                              | Allowable Costs/Cost Principles and Eligibility                  | 07-10                 | 58-60               |
| IL Department of Human Services                 | State Children’s Insurance Program                                   | Allowable Costs/Cost Principles and Eligibility                  | 07-10                 | 58-60               |
| IL Department of Human Services                 | Medicaid Cluster   | Allowable Costs/Cost Principles and Eligibility                  | 07-10                 | 58-60               |
| IL Department of Human Services                 | Food Stamps Cluster  | Allowable Costs/Cost Principles and Eligibility                  | 07-11                 | 61-62               |
| IL Department of Human Services                 | Temporary Assistance for Needy Families                              | Allowable Costs/Cost Principles and Eligibility                  | 07-11                 | 61-62               |
| IL Department of Human Services                 | State Children’s Insurance Program                                   | Allowable Costs/Cost Principles and Eligibility                  | 07-11                 | 61-62               |
| IL Department of Human Services                 | Medicaid Cluster   | Allowable Costs/Cost Principles and Eligibility                  | 07-11                 | 61-62               |
| IL Department of Human Services                 | Medicaid Cluster   | Allowable Costs/Cost Principles and Eligibility                  | 07-12                 | 63-64               |
| IL Department of Human Services                 | Temporary Assistance for Needy Families                              | Allowable Costs/Cost Principles and Eligibility                  | 07-13                 | 65-66               |
| IL Department of Human Services                 | Temporary Assistance for Needy Families                              | Allowable Costs/Cost Principles and Special Tests and Provisions | 07-14                 | 67-68               |
| IL Department of Human Services                 | Rehabilitation Services – Vocational Rehabilitation Grants to States | Allowable Costs/Cost Principles and Eligibility                  | 07-15                 | 69-70               |
| IL Department of Healthcare and Family Services | State Children’s Insurance Program                                   | Allowable Costs/Cost Principles and Eligibility                  | 07-25                 | 90-91               |
| IL Department of Healthcare and Family Services | Medicaid Cluster   | Allowable Costs/Cost Principles and Eligibility                  | 07-25                 | 90-91               |
| IL Department of Children and Family Services   | Foster Care - Title IV-E   | Allowable Costs/Cost Principles and Eligibility                  | 07-32                 | 103-104             |
| IL Department of Children and Family Services   | Foster Care - Title IV-E   | Allowable Costs/Cost Principles and Eligibility                  | 07-33                 | 105-106             |

|   |  |  |       |         |
|---|--|--|-------|---------|
| IL Department of Children and Family Services | Adoption Assistance  | Allowable Costs/Cost Principles and Eligibility                  | 07-34 | 107-108 |
| IL Department of Children and Family Services | Adoption Assistance  | Allowable Costs/Cost Principles and Eligibility                  | 07-35 | 109-110 |
| IL Department of Children and Family Services | Temporary Assistance for Needy Families  | Subrecipient Monitoring  | 07-36 | 111-112 |
| IL Department of Children and Family Services | Foster Care - Title IV-E   | Subrecipient Monitoring  | 07-36 | 111-112 |
| IL Department of Children and Family Services | Adoption Assistance  | Subrecipient Monitoring  | 07-36 | 111-112 |
| IL Department on Aging                        | Aging Cluster  | Subrecipient Monitoring  | 07-40 | 119-120 |
| IL Department of Public Health                | Centers for Disease Control and Prevention – Investigations and Technical Assistance | Subrecipient Monitoring  | 07-44 | 127-128 |
| IL Department of Public Health                | HIV Care Formula Grants  | Subrecipient Monitoring  | 07-44 | 127-128 |
| IL Department of Public Health                | Centers for Disease Control and Prevention – Investigations and Technical Assistance | Subrecipient Monitoring  | 07-45 | 129-131 |
| IL Department of Public Health                | HIV Care Formula Grants  | Subrecipient Monitoring  | 07-45 | 129-131 |
| IL Department of Public Health                | HIV Care Formula Grants  | Allowable Costs/Cost Principles and Eligibility                  | 07-46 | 132-133 |
| IL State Board of Education                   | Title I Grants to Local Educational Agencies   | Allowable Costs/Cost Principles and Special Tests and Provisions | 07-52 | 143-144 |
| IL State Board of Education                   | Title I Grants to Local Educational Agencies   | Subrecipient Monitoring  | 07-53 | 145-147 |
| IL State Board of Education                   | Special Education Cluster  | Subrecipient Monitoring  | 07-53 | 145-147 |
| IL State Board of Education                   | Vocational Education – Basic Grants to States  | Subrecipient Monitoring  | 07-53 | 145-147 |
| IL State Board of Education                   | Twenty-First Century Community Learning Centers                                      | Subrecipient Monitoring  | 07-53 | 145-147 |
| IL State Board of Education                   | Improving Teacher Quality State Grants   | Subrecipient Monitoring  | 07-53 | 145-147 |
| IL State Board of Education                   | Title I Grants to Local Educational Agencies   | Subrecipient Monitoring  | 07-54 | 148-150 |
| IL State Board of Education                   | Twenty-First Century Community Learning Centers                                      | Subrecipient Monitoring  | 07-54 | 148-150 |
| IL State Board of Education                   | Improving Teacher Quality State Grants   | Subrecipient Monitoring  | 07-54 | 148-150 |
| IL Community College Board                    | Vocational Education – Basic Grants to States  | Subrecipient Monitoring  | 07-56 | 153-154 |
| IL Student Assistance Commission              | Federal Family Education Loans – Guaranty Program                                    | Special Tests and Provisions                                     | 07-58 | 157-160 |
| IL Department of Transportation               | Airport Improvement Program  | Suspension and Debarment   | 07-69 | 184-185 |
| IL Department of Transportation               | Airport Improvement Program  | Subrecipient Monitoring  | 07-70 | 186-187 |



|                             |   |                         |       |         |
|-----------------------------|---|-------------------------|-------|---------|
| IL State Board of Elections | Help America Vote Act Requirements Payments | Subrecipient Monitoring | 07-81 | 208-209 |
| IL State Board of Elections | Help America Vote Act Requirements Payments | Subrecipient Monitoring | 07-82 | 210-211 |

**Internal Control Over Financial Reporting**

We noted certain matters involving internal control over financial reporting the Schedule of Expenditures of Federal Awards (Schedule) that were considered to be significant deficiencies or material weaknesses. A significant deficiency involve matters coming to our attention relating to control deficiencies, or a combination of control deficiencies, in the design or operation of internal control over financial reporting of the Schedule that, in the auditors’ judgment, could adversely affect the State’s ability to record, process, summarize and report financial data consistent with the assertions of management. There were 13 findings reported in the single audit classified as significant deficiencies in financial reporting. Four of the 13 significant deficiencies are considered to be material weaknesses.

**Internal Control Over Compliance**

We noted certain matters involving internal control over compliance that were considered to be significant deficiencies. Significant deficiencies, or a combination of control deficiencies, involve matters coming to the auditors’ attention related to the design or operation of internal control over compliance that, in the auditors’ judgment, could adversely affect the State’s ability to administer a major federal program in accordance with the applicable requirements. Overall, 67 of the 87 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. In general, a material weakness is a condition in which the design or operation of internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Overall, 46 of the 87 findings reported in the single audit were classified as both a material weakness and a significant deficiency.

**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

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

**EXHIBIT V  
Summary Schedule of Findings By Agency**

| <b>State Agency</b>               | <b>Number of Findings</b> | <b>Number of Repeat Findings</b> | <b>Page References to Findings</b> |
|-----------------------------------|---------------------------|----------------------------------|------------------------------------|
| State Comptroller                 | 1                         | 1                                | 34-35                              |
| Human Services                    | 16                        | 12                               | 36-37, 55-87                       |
| Revenue                           | 1                         | 1                                | 88-89                              |
| Healthcare and Family Services    | 7                         | 5                                | 90-102                             |
| Children and Family Services      | 9                         | 7                                | 38-39, 103-118                     |
| Aging                             | 3                         | 3                                | 119-124                            |
| Public Health                     | 9                         | 6                                | 40-41, 125-140                     |
| State Board of Education          | 6                         | 1                                | 42-43, 141-152                     |
| Community College Board           | 2                         | 2                                | 153-156                            |
| Student Assistance Commission     | 3                         | 3                                | 157-163                            |
| Employment Security               | 7                         | 4                                | 46-47, 164-177                     |
| Commerce and Economic Opportunity | 2                         | 0                                | 178-183                            |
| Transportation                    | 10                        | 8                                | 44-45, 184-202                     |
| Emergency Management Agency       | 3                         | 2                                | 48-49, 203-205                     |
| State Police                      | 1                         | 1                                | 206-207                            |
| State Board of Elections          | 3                         | 2                                | 208-213                            |
| Central Management Services       | <u>4</u>                  | <u>1</u>                         | 214-229                            |
| Totals                            | <u>87</u>                 | <u>59</u>                        |                                    |

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

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

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### **State's process for collecting data is inadequate**

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

Our review encompassed:

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

A variety of corrections were noted in the submission and finalization of the State Comptroller forms due to their complex nature and manual process.

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### **Lack of accuracy in reporting results and not meeting completion due dates**

For example, during our review of the financial reporting process, we noted agencies submitted information requiring correcting journal entries identified by either the IOC or auditors to accurately state amounts reported by state agencies. These corrections occurred after the agency's submission of their GAAP packages to the IOC. Although agencies submitted their GAAP packages by the IOC scheduled due date, the IOC provided its final electronic database on November 1, 2007 resulting in the

completion of the SEFA in May, 2008 (approximately 11 months after the State's fiscal year end).

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

These agencies having problems in one or more of the above noted areas were:

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**Errors, deficiencies, omissions and delays in financial reporting**

| <u>Finding</u> | <u>Agency</u>                |
|----------------|------------------------------|
| 07-02          | Human Services               |
| 07-03          | Children and Family Services |
| 07-04          | Public Health                |
| 07-05          | State Board of Education     |
| 07-06          | Transportation               |
| 07-07          | Employment Security          |
| 07-08          | Emergency Management Agency  |

As a result of the errors, deficiencies and omissions noted throughout the process used by the State in its financial reporting process, along with the inability to meet the required filing deadline of 03/31/06, the auditors identified the inadequacies as a significant deficiency for all federal programs administered by the State. (Finding 07-01 through 07-08, pages 34-49) **This finding was first reported in the Statewide Single Audit in 2002.**

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**Current process and information system should be changed to enhance timeliness of SEFA completion**

We recommended the IOC review the current process and information system for compiling the SEFA and consider changes that will allow for completion of the State's OMB Circular A-133 audit within the required timeframe. Such a review should include consideration of implementing a statewide grant accounting system.

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**State Comptroller to consult with Governor's Office of Management and Budget for solution**

The State Comptroller's Office agrees that the State does not currently have an adequate process in place to permit the timely preparation of the SEFA. The Comptroller is to continue advising and supporting the Governor's Office of Management and Budget in establishing and implementing monitoring procedures for agencies' reporting of federal award financial information, including the possible implementation of a statewide grant

accounting system.

**FAILURE TO PERFORM REDETERMINATIONS OF ELIGIBILITY WITHIN PRESCRIBED TIMEFRAMES**

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

During our test work of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility re-determinations of individuals for the three programs during June 2007 as follows:

|          |                         |      |
|----------|-------------------------|------|
| TANF     | 1,563 of 32,127 cases   | 4.9% |
| SCHIP    | 15,149 of 590,227 cases | 2.6% |
| Medicaid | 16,801 of 416,145 cases | 4.0% |

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**DHS delinquent in performing recipient eligibility re-determination**

Failure to properly perform eligibility re-determination procedures in accordance with State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding 07-10, pages 58-60)  
**This finding was first reported in the Statewide Single Audit in 2003.**

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**Auditor qualification due to untimely eligibility re-determinations**

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

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

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**DHS accepts the auditor recommendation**

DHS officials agreed with our recommendations. They are to review their current process for performing eligibility re-determinations and consider any changes to ensure all re-determinations are made within timelines prescribed by federal guidelines. (For previous agency response, see Digest Footnote #1)

## **FAILURE TO MAINTAIN AND CONTROL CASE FILE RECORDS**

The Department of Human Services (DHS) local offices do not have appropriate controls over case file records for beneficiaries of the Food Stamps , Temporary Assistance for Needy Families (TANF), State Children’s Health Insurance (SCHIP), and Medicaid programs.

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### **Inadequate control over beneficiary records**

During our testwork at six separate local offices, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically, in the six local offices, case files were generally disorganized and stacked on and around file cabinets. In certain instances, we noted the case files were available to all DHS personnel and that formal procedures did not exist for checking case files in and out of the file rooms or for tracking their locations. The amount of questioned costs that may be assessed the State due to loss or misplaced beneficiary files could not be determined for these four major programs whose total beneficiary spending exceeds \$7.7 billion in the aggregate.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and payment of unallowable costs from federal programs. (Finding 07-11, pages 61-62)

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### **Auditor qualification due to shortfall in control over case file records**

As a result of DHS’s failure to properly maintain and control case file records of beneficiaries, the auditors qualified their opinion on the Food Stamp, TANF, SCHIP, and Medicaid programs.

We recommended DHS review its current process for maintaining and controlling beneficiary case records and consider changes needed to ensure case file documentation is maintained in accordance with federal and the State Plans for each affected program.

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### **DHS accepts the auditor recommendation**

DHS officials agreed with the finding and accepted the recommendation.

## **FAILURE TO DETERMINE ELIGIBILITY IN ACCORDANCE WITH PROGRAM REGULATIONS**

The Department of Human Services (DHS) failed to

determine eligibility of beneficiaries under the Medicaid program in accordance with the federal regulations.

During our testwork of 125 Medicaid beneficiary payments, we noted one case for which DHS had not properly considered all assets reported by the beneficiary in the determination of eligibility. The instance in question was due to the failure to consider a \$25,000 life insurance policy in its computation of the beneficiary's eligibility for Medicaid program benefits. This one case of under reported assets in its computation resulted in an overpayment by the DHS of \$6,018.

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**DHS failed to consider life insurance policy as an asset when determining Medicaid eligibility**

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**Overpayment**

The State Plan and federal requirements define the requirements in determining client eligibility for Medicaid program benefits. Payments made to all beneficiaries from the Medicaid program totaled \$5.7 billion in FY2007.

Failure to properly perform eligibility determinations may result in expenditures being made to ineligible beneficiaries, which are unallowable costs. (Finding 07-12, pages 63-64)

As a result of DHS's failure to properly determine the eligibility of Medicaid program beneficiaries, the auditors qualified their opinion on the Medicaid program.

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**Failure to include all assets in determining eligibility results in auditor qualification**

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We recommended DHS review its current process for determining eligibility determinations and consider the changes necessary to ensure all eligibility determinations are performed in accordance with federal and the Medicaid State Plan.

DHS officials agreed with and accepted our recommendations and will seek to recover any overpayment by the Department.

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**DHS agrees with auditor recommendation**

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### **INADEQUATE PROCESS FOR PREVENTING CONVICTED FELONS TO RECEIVE TANF BENEFITS**

The Department of Human Services (DHS) does not have an adequate procedure in place to ensure individuals convicted of Class 1 or Class X drug felonies do not receive benefits under the Temporary Assistance for Needy Families (TANF) program.

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**Class 1 or X felony drug conviction prohibits receipt of TANF benefits**

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to meet certain eligibility criteria prescribed by federal regulations and the State Plan. One of the criteria is that individuals convicted of a Class 1 or Class X felony are prohibited from receiving TANF benefits.

During our test work over the TANF program, we noted DHS' process for determining whether applicants have been convicted of a Class 1 or Class X felony primarily consists of inquiries made during the application process. DHS does not have procedures in place to corroborate the applicant's statements via cross matches with the Department of State Police, IL State Police, or other mechanisms.

In accordance with federal regulations, Section II.G of the current State Plan prohibits individuals convicted of a Class 1 or Class X felony for an Act occurring after August 21, 1996, involving the possession, use, or distribution of a controlled substance are ineligible to receive TANF. Additionally, IDHS policy requires crossmatches to be completed to determine whether applicants have been convicted of a Class 1 or Class X drug felonies (Finding 07-13, pages 65-66)

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**Auditor qualification**

As a result of DHS's failure to ensure convicted drug felons did not receive benefits in accordance with the State Plan, the auditors qualified their report on the TANF program.

We recommended DHS review its current process for performing eligibility determinations and consider changes necessary to ensure procedures to verify whether beneficiaries have been convicted of a Class 1 or Class X felony are implemented.

DHS officials agreed with the finding and state they will review their process of verifying those persons who were convicted of a Class 1 or X felony.

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**DHS accepts the auditor recommendation**

**FAILURE TO FOLLOW AND DOCUMENT TANF SANCTION PROCEDURES**

The Department of Human Services (DHS) 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.

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**Non-cooperating child support clients violate regulations**

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 Department of Healthcare and Family Services (HFS) to help identify and locate non-custodial parents. In the event a TANF beneficiary fails to assist HFS without good cause, DHS is required to reduce or deny his/her benefits.

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**DHS must sanction TANF recipients if beneficiary fails to assist in paternity establishment**

During our test work over the Child Support Non-Cooperation Special Test of the TANF program, we selected 50 Child Support cases referred by HFS for non-cooperation without good cause. We noted the following exceptions:

- (1) In three cases, DHS did not sanction beneficiaries for non-cooperation and no evidence was in the case files documenting that good cause existed for non-cooperation. Benefit payments paid to these individuals during the year were \$2,321.
- (2) In five cases, DHS did not evaluate beneficiaries for non-cooperation within required timeframes. There was no evidence in these case files documenting the reasons for these delays. Delays in evaluating cases ranged from 6 to 144 days. Benefit payments paid to these individuals during the year were \$2,560.

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**Case files were either not properly documented as to “good cause” or action was untimely**

Federal regulations requires the State take appropriate action by deducting an amount equal to at least 25% of the family’s assistance payment or denying any assistance under the program. (Finding 07-14, pages 67-68) **This finding was first reported in the Statewide Single Audit in 2003.**

As a result of DHS’s failure to sanction beneficiaries for non-cooperation with Child Support Enforcement efforts in accordance with the State Plan, the auditors qualified their report on the TANF program.

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**Auditor qualification for failure to enforce sanctions**

We recommended DHS 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’s Plan.

DHS officials agreed with the finding. DHS also indicated that they will seek to recover any overpayments identified through all means authorized by statute. (For previous agency response, see Digest Footnote #2)

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**DHS agrees with finding**

**UNALLOWABLE EXPENDITURES CHARGED TO THE VOCATIONAL REHABILITATION PROGRAM**

The Department of Human Services (DHS) made unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Voc Rehab) program.

The Voc Rehab program is designed to provide services to certain individuals who have physical or mental impairments that impede them in attaining employment. Services provided to the individuals vary and are designed specifically for each beneficiary based upon the facts and circumstances. Most services are considered allowable if they assist the individual in attaining his/her employment goal and are documented in the Individualized Plan for Employment (IPE) file.

During our testwork, we selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted in two cases, payments were made for services not approved in the current IPE. Payments made during the year for services to these beneficiaries totaled \$3,815.

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**Auditor questions program costs totaling \$3,815**

Federal regulations require an IPE be signed by both the eligible individual and a vocational counselor and must include certain specified criteria. (Finding 07-15, Pages 69-70) **This finding was first reported in the Statewide Single Audit in 2005.**

As a result of DHS's failure to properly determine the allowability of costs in accordance with program regulation, the auditors qualified their report on the Voc Rehab program.

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**Auditor qualification**

We recommended DHS review its process for determining the allowability of payments on behalf of beneficiaries and consider changes necessary to ensure only allowable costs determined eligible are charged to the federal program.

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**DHS accepts auditor recommendation**

DHS officials agreed with the finding and recommendation, and indicated the expenditures cited by the auditors are valid under the Voc Rehab Program. (For previous agency response, see Digest Footnote #3.)

In an Auditor's Comment we noted that services not included in the IPE are not allowable or "valid".

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**Auditors' Comment**

**INADEQUATE PROCEDURES FOR PERFORMING ELIGIBILITY REDETERMINATIONS**

Eligibility determinations of the Department of Healthcare and Family Services (HFS) for the Medicaid and State Children's Insurance Program (SCHIP) are not adequate.

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**Eligibility determinations are inadequate**

Effective February 2006, HFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and SCHIP programs to a "passive" procedure. The passive redetermination procedure includes the following

- Beneficiary renewal form is sent via mail to the beneficiary. This form contains key eligibility criteria for completion.
- Beneficiary (or beneficiary's guardian) is requested to review the form.
- The beneficiary is to report any changes to the key eligibility criteria.

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**Redeterminations do not require positive confirmation of current beneficiary criteria**

However, in the event there are no changes to the information, and there are only children on the case, a response is not required.

Upon further review, we noted neither HFS nor the Department of Human Services which performs eligibility determinations for these programs, maintains a formal record of the cases subject to the passive redetermination procedures. As a result, we were unable to quantify the number of cases subject to the passive redetermination policy. Payments made on behalf of beneficiaries of the Medicaid and SCHIP programs totaled \$6 billion in FY2007.

Federal regulations require redetermination of client eligibility as defined in the State Plans. The State Plans require an annual eligibility redetermination. In addition,

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**State plan requires accurate reporting**

federal regulations require the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. (Finding 07-25, pages 90-91)

As a result of HFS' inadequate procedures for performing eligibility redeterminations of beneficiaries of the Medicaid and SCHIP programs in accordance with the federal regulations and the State Plans, the auditors qualified their report on Medicaid and SCHIP programs.

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**Auditors qualified their report on the Medicaid and SCHIP programs**

We recommend HFS review its current process for performing eligibility redeterminations and consider changes necessary to ensure redeterminations are performed in accordance with federal regulations and the State Plans for each affected program.

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**HFS disagrees with auditors**

HFS officials did not agree with the finding. The Department states they believe the current passive renewal process is fully compliant with the federal guidance. However, HFS will review the possibilities for revising their data systems to identify cases that are redetermined using this policy to support quality control review activity.

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**Auditors' Comment**

In an auditors comment we stated that the current State Plans require redeterminations of eligibility for all recipients on an annual basis, along with the federal requirements for the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. HFS officials have stated that they do not use passive redetermination process under the *All Kids* program due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns are applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs.

**MISSING DOCUMENTATION IN ELIGIBILITY AND CASE FILES FOR ADOPTION ASSISTANCE AND FOSTER CARE PROGRAMS**

The Department of Children and Family Services (DCFS) could not locate case file documentation supporting eligibility determinations for beneficiaries of the

Adoption Assistance and Foster Care - Title IV-E programs.

The Adoption Assistance program provides funds to States for adoption assistance agreements with parents who adopt eligible children with special needs. The Foster Care Title IV-E program provides funds based on certain financial and non-financial criteria, e.g. the child meets the criteria of the prior Aid to Families with Dependent Children (AFDC).

During our testwork of 50 case files for eligibility requirements and allowability for each of the programs, we noted the following:

Foster Care - Title IV-E

- in two cases, DCFS could not locate the child's birth certificate evidencing the child met the age requirements. DCFS claimed on behalf of this child \$15,880 during FY2007.
- in one case, DCFS could not locate the child's "Order Appointing Private Guardian." DCFS claimed on behalf of this child \$4,151 during FY2007.

Adoption Assistance

- in six cases, DCFS could not locate the initial judicial determination indicating that the child's continuation in the residence would be contrary to the welfare of the child, or placement would be in the child's best interest. DCFS claimed on behalf of these children \$17,983 during FY2007.
- in three cases, DCFS could not locate the birth certificate evidencing the child met the age requirements. DCFS claimed on behalf of these children \$7,435 during FY2007.
- in three cases, DCFS could not locate the petition to terminate, or surrender of parental rights. DCFS claimed on behalf of these children \$7,435 during FY2007.

Federal regulations of the Foster Care - Title IV-E are predicated on certain eligibility criteria of the former AFDC program, such as a child under the age of 18 years may not be denied AFDC regardless of whether she attends school or makes satisfactory grades.

Federal regulations of the Adoption Assistance program provide a child must have been removed from a home pursuant to a voluntary placement agreement or a judicial

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**Client files missing certain documentation**

determination that remaining in such home would be contrary to the child's welfare. Also, benefits are discontinued when the child reaches the age of 18 years unless the child has a physical or mental handicap which permits coverage until reaching the age of 21.

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**Audit qualification due to missing eligibility documentation**

As a result of DCFS' missing eligibility documentation, the auditors qualified their report for the Foster Care - Title IV-E and Adoption Assistance programs. (Findings 07-32 and 07-34, pages 103-104 and 107-108, respectively).

**These findings were both reported in the Statewide Single Audit in 2006.**

We recommended DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations, relevant court orders, birth certificates, and adequate documentation of special needs exists for all children for whom adoption subsidy payments, nonrecurring cost expenditure and/or benefit claims are made.

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**DCFS officials agreed with finding**

DCFS officials agreed with the findings and stated that they will review procedures for obtaining and retaining documents. DCFS indicated that they would be obtaining the missing documents noted in the above findings. If documentation is not available or obtainable, the Department will make appropriate claiming adjustments. (For previous agency response, see Digest Footnote #4.)

**FAILURE TO ENSURE THAT REQUIRED JUDICIAL DETERMINATIONS WERE MADE**

The Department of Children and Family Services (DCFS) did not ensure that required judicial determinations were made in applicable court rulings, including those pertaining to "Reasonable Efforts" and "Contrary to the Welfare."

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**DCFS did not ensure language in court rulings were complete**

The Foster Care Program provides funds to States for the purpose of providing safe, appropriate, 24-hour substitute care for children who are under the jurisdiction of the DCFS and need temporary placement and care outside of their home. To be eligible for reimbursement under the Foster Care program, DCFS is required to receive a judicial determination (court ruling) within 60 days as to what living arrangement is in the child's best interest and whether or not DCFS has made reasonable efforts to

prevent removal by following the proper investigative procedures prior to removing the child from the home.

During our testwork over Foster Care beneficiary payments, we selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted in one case the court order removing the child from the home did not contain language to the effect that continuing in the residence would be contrary to the welfare of the child, or that placement would be in the best interest of the child.

DCFS claimed reimbursement for foster care maintenance payments made on behalf of this beneficiary totaling \$2,214 during the year ended June 30, 2007. (Finding 07-33, pages 105-106) **This finding was first reported in the Statewide Single Audit in 2005.**

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**Auditor qualification due to failure to ensure judicial determinations**

As a result of DCFS failing to ensure that appropriate judicial determinations are made, the auditors qualified their report on the Foster Care - Title IV-E program.

We recommended DCFS review its procedures for obtaining and documenting whether judicial determinations have been made for all beneficiaries. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of the required judicial determinations not being made.

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**DCFS accepts the auditor recommendation**

DCFS officials agreed with the finding and stated they will continue to review procedures for obtaining and documenting whether judicial determinations have been made and make necessary changes, where needed, to ensure determinations are made within the required timelines and that required language is included in the agreements. Also, DCFS will make the appropriate claiming adjustments for actual amounts included in claims relating to the beneficiary payments questioned by the auditors. (For previous agency response, see Digest Footnote #5.)

**FAILURE TO PROPERLY DOCUMENT OR EXECUTE ADOPTION ASSISTANCE AGREEMENTS**

The Department of Children and Family Services (DCFS) made recurring and nonrecurring Adoption Assistance program benefit payments that were not

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**Payments made that were not properly supported by agreements**

properly supported by agreements.

The Adoption Assistance program provides benefits to parents who adopt eligible children with special needs. An agreement is required for this program which specifies the nature and amount of monthly assistance as well as any nonrecurring expenses that will be reimbursed to the parents. This agreement is to be finalized prior to the adoption.

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**Auditors' testwork identifies ineligible costs**

During the auditors' testwork of 50 case files for compliance with eligibility requirements and allowability of related benefits, we noted in one case DCFS claimed reimbursement for nonrecurring adoption assistance expenses of \$2,307 on behalf of a child for whom an agreement had not been executed.

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**Auditors qualified program due to ineligible costs**

Federal regulations require the agreement for subsidy payments (recurring) must contain information concerning the nature and amount of the payments to be provided, be signed, and in effect prior to the adoption decree being final. Nonrecurring expenses of an adoption shall be determined through an agreement between the adopting parent(s) and DCFS. The agreement is to be signed and in effect prior to the adoption decree being final. (Finding 07-35, pages 109-110)

As a result of DCFS paying for costs that were not evidenced in Adoption Assistance agreement, the auditors reported a qualification for the Adoption Assistance program.

We recommended DCFS review its procedures for documenting and executing adoption agreements and implement changes necessary to ensure the agreements contain the required elements and properly executed.

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**DCFS agrees with finding**

DCFS agreed with the finding and stated that they would be conducting a review of its procedures for entering adoption agreement amounts to include the case cited above and determine the circumstances of the reported error.

**INADEQUATE CONTROL AND ACCOUNTABILITY FOR VACCINES**

The Department of Public Health (DPH) did not adequately control and account for vaccines distributed



under its Immunization Grants program.

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**DPH had inadequate control and accounting for vaccines**

DPH receives the majority of its federal Immunization Grants program funding in the form of vaccines which are distributed to medical providers throughout the State. In addition to the federal program, DPH operates a state funded program to provide vaccines to individuals who are not eligible under the federal program. The vaccines for both the federal and state funded programs are accounted for using the same software (VACMAN). DPH does not distinguish between the federally and state funded programs when recording disbursements in VACMAN. As a result, DPH was not able to identify the amount of the federally funded vaccines disbursed during the year or the amount of federally funded vaccines on hand as of June 30, 2007. Federal regulations require grantees maintain records which adequately identify the source and application of funds provided for financially assisted activities.

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**DPH records did not identify federal vaccines disbursed or inform subrecipients of the dollar amount of federal vaccines provided**

During our testwork, we were not able to obtain a complete population of federal expenditures to verify vaccines were used for activities allowed under the Immunization Grants program or that subrecipients were monitored for compliance with the applicable program regulations. In addition, we noted DPH had not properly notified subrecipients of the amount of federally funded vaccines disbursed during the year. Accordingly, we were unable to conclude on DPH's compliance with regulations applicable to the Immunization Grants program. (Finding 07-43, pages 125-126)

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**Auditors disclaimed on immunization grants program**

As a result of DPH's failure to adequately control and account for vaccines, the auditors issued a disclaimer on the Immunization Grants program.

We recommend DPH review its process for identifying vaccines disbursed under its federal Immunization Grants program and implement the changes needed to ensure federal vaccine disbursements are identified and accounted for in accordance with the applicable program regulations.

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**DPH agrees and indicated problem was due to federally provided software**

Department of Public Health officials concurred with the finding and recommendation. They stated that the VACMAN system is a federally mandated system where the State places its vaccine orders. During the year, DPH discovered the reporting features were not working accurately. The Centers for Disease Control and

Prevention was informed of the problem when discovered. Although not updated at the time of the audit, the Department has now created a spreadsheet for use by DPH for inventory information to respond to future audit queries.

### **INADEQUATE PROCESS FOR DETERMINING CLIENT ELIGIBILITY**

The Department of Public Health (DPH) did not have an adequate process for performing client eligibility determinations for its HIV Care Formula Grant (HIV) program.

The HIV program administered by DPH includes an AIDS Drug Assistance Program (ADAP) under which beneficiaries who meet certain eligibility criteria are provided drugs to treat HIV/AIDS. The eligibility criteria 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 ineligible for medical assistance through Medicaid; and (5) is an Illinois resident. DPH's current process for determining eligibility requires completing an application and submitting it either by mail or in person to a member of the HIV Consortium (DPH subrecipients of the HIV program). The application requires submission of proof of income, insurance, residency, and documentation of a medical diagnosis of HIV/AIDS. DPH confirms with the Department of Healthcare and Family Services that the individual is not receiving benefits under Medicaid.

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**Changes needed in process of documenting HIV eligibility criteria**

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**Eligibility support missing from files**

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**Auditor qualification for failure to have proper supporting documentation and resource verification**

Additionally, in 8 of the 30 cases, the beneficiary's application indicated the beneficiary had no income and, since DPH confirmed the individual was not receiving Medicaid benefits, a determination of Medicaid eligibility was not performed. As a result, no income verification procedures were performed to verify the income reported was accurate. Failure to adequately establish a beneficiary's eligibility may result in expenditures being made to or on behalf of ineligible beneficiaries, which are unallowable costs. (Finding 07-46, pages 132-133) **This finding was first reported in the Statewide Single Audit in 2004.**

As a result of DPH's failure to maintain adequate documentation in support of the eligibility determinations,

the auditors qualified their report on the HIV Care Formula Grants program.

We recommended DPH review its current process for determining eligibility to include ensuring adequate documentation exists to support determinations, and verification of income and insurance with third party sources and other State agencies.

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**DPH accepts finding and recommendation**

DPH officials agreed with the finding and provided examples why there are occasions in which complete documentation is not available. DPH is checking the Medicaid database for eligibility of each applicant prior to approval of services and authorization for each refill. DPH has implemented a requirement of obtaining a signed affidavit if the client cannot provide required proof of income. Also, DPH revised its policy to require a prospective client must not be Medicaid enrolled rather than Medicaid eligible. (For previous agency response, see Digest Footnote #8)

**IMPROPER ALLOCATION OF SUBRECIPIENT FUNDING UNDER THE TERMS OF THE READING FIRST STATE PLAN**

The Illinois State Board of Education (ISBE) did not properly allocate federal funds to subrecipients of the Reading First State Grants (Reading First) program during FY2007. The Reading First program, which began in fiscal year 2003, is awarded by ISBE to eligible subrecipients for a three year period. The Consolidated State Plan (State Plan) for the Reading First program requires that allocation to subrecipients be based on a declining amount of one-third in each of the second and third years. Funding in years 4 through 6 should be based on the year 3 amount but is dependent upon adequate annual progress goals and need basis as demonstrated by the subrecipient. Based on the declining funding model, it was the intent of the State Plan to initially award Reading First funds to 175 schools in FY2003 and subsequently add approximately 58 new schools in FY2004 and 78 new schools in FY2005.

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**Reading First program not operated in accordance with State Plan approved by USDE**

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**ISBE failed to distribute federal funds using the declining funding model**

During our audit, we noted ISBE has not been allocating Reading First funds using a declining funding model as required by the State Plan. Specifically, ISBE has been awarding a consistent amount to each subrecipient as received in the first year (which was FY2003 for most subrecipients). Additionally, ISBE has not added new

subrecipients each year as required by the State Plan due to lack of availability from not using the declining funding model. We noted there were 0, 0, 10, and 0 new subrecipients (districts) during the years 2004, 2005, 2006 and 2007, respectively. The Reading First program distributed \$29,434,000 to 29 subrecipients during FY2007.

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**Adverse report issued by auditors on Reading First State Grants program**

ISBE prepared and obtained US Department of Education (USDE) approval for a Reading Plan program which describes a specific plan. However, as a result of the failure by ISBE to comply with the approved State Plan, the auditors issued an adverse opinion on their audit of the Reading First program. (Finding 07-51 and 07-53, pages 141-142 and 145-146, respectively)

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**Auditors recommend ISBE follow State plan**

We recommended ISBE allocate funding to subrecipients in accordance with the methodologies in the approved State Plan. We also recommended ISBE evaluate its resources allocated for monitoring subrecipients and re-evaluate its selection method for determining which subrecipients to perform on-site reviews.

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**ISBE agrees with auditors and are seeking State plan amendment from USDE**

ISBE officials agreed that the funding model they used to allocate Reading First program resources is not in agreement with its original approved State Plan. ISBE is working with USDE to obtain approval of an amendment to the State Plan to reflect the funding model in use.

**FAILURE TO SANCTION NON-COMPARABLE LOCAL EDUCATION AGENCY (LEA)**

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**ISBE failed to sanction LEA**

The State Board of Education (ISBE) failed to sanction a LEA that did not meet the requirement under the Title I Grants to Local Educational Agencies (Title I) program.

LEAs must provide educational services for schools receiving Title I funds that are comparable to those that are not receiving Title I funds within the same school district (“comparability of services”).

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**Noncomplying LEA provided \$282 million in federal funds**

Based on information provided by a US Department of Education (USDE) audit and procedures performed during our audit in FY 2006, we noted one LEA was not in compliance with the comparability of services requirement. Specifically, this LEA has 16 schools that receive Title I funds that provide educational services (based on a teacher to pupil and an expenditure to pupil ratios) that are less than

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**ISBE aware of noncompliance**

schools not receiving Title I funding. Although ISBE was aware of the noncompliance, they did not cite the LEA for failure to meet the comparability of services requirement. This LEA received an allocation of approximately \$282 million in Title I program funds during FY2007. Of this amount, the 16 schools that did not meet the comparability of services requirement received approximately \$3.0 million.

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**Auditor qualifies federal program due to failure to sanction LEA**

Federal regulations state that the State Educational Agency (ISBE) is ultimately responsible for ensuring that all subrecipients remain in compliance with the comparability of services requirements. (Finding 07-52, pages 143-144)

As a result of ISBE not sanctioning the LEA for the comparability of service requirements, the auditors qualified the Title I Grants to Local Educational Agencies program.

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**ISBE agrees with finding**

We recommended ISBE implement procedures to appropriately monitor and sanction LEAs not meeting the comparability of services requirement.

ISBE officials agreed with the finding and are waiting for guidance from the USDE in determining what sanction would be appropriate to impose.

**PROCESSING AND SUBMISSION OF RE-INSURANCE CLAIMS**

The Illinois Student Assistance Commission (ISAC) did not comply with regulations regarding the submission and processing of reinsurance claims.

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**ISAC's interpretation of FFELP regulations questioned by federal officials**

During FY 2003, the USDE-OIG conducted an audit of the Federal Family Education Loan Program (FFELP) 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 audit report indicated that 50 claims were selected to test from a population of 21,732. Of the 50 tested (totaling \$123,521),

32 claims (or 64% totaling \$75,077) should have been returned to the lenders because the lender's claim packet was missing accurate collection and/or payment histories or contained evidence of a due diligence violation(s).

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**ISAC has not changed its process**

The report stated that ISAC's claims review process is not adequate and is limited, and thus, does not comply with the regulations to fulfill their administrative responsibility. During the year ended June 30, 2007, ISAC has not changed its process for submission and payment of claims. However, subsequent to the ED-OIG audit in 2003, the USDE established an exceptional performer designation for certain lenders and lender servicers. Under this relatively new program, lenders that meet the exceptional performer requirements, including having a compliance audit of their loan portfolio which shows a performance rating of 97% or higher, receive 100% reimbursement on claims and are entitled to receive payments immediately without a claim review by ISAC.

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**ISAC believes potential compliance issues have been mitigated**

During the year ended June 30, 2007, ISAC received \$125 million out of a total of \$148 million reinsurance claims from lenders that were designated as exceptional performers by the USDE. Accordingly, ISAC's current potential noncompliance is mitigated by the fact that 86% of the current claims are submitted by lenders who have been designated as exceptional performers. For these lenders, ISAC must pay the claim regardless of whether they identify potential violations of the requirements relating to repayment conversion, due diligence, or timely filling. (Finding 07-58, pages 157-160) **This finding was first reported in the Statewide Single Audit in 2003.**

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**Auditor qualification due to noncompliance with program regulations**

As a result of the non-compliance with the federal regulations by ISAC, the auditors issued a qualified opinion on their audit of the FFELP.

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**ISAC accepts the auditor finding and recommendation**

We recommended ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of claims and make any necessary changes to conform to those requirements, including determining whether the new post-claim review process established during FY2007 meets the requirements of USDE.

ISAC officials agreed with the recommendation and stated they will continue consultation with the USDE relative to the interpretation of federal laws and regulations

relating to the processing and submission of reinsurance claims. Further, ISAC has an appeal pending with the USDE challenging the accuracy of the data on which the finding is based. Based on the outcome of this appeal and any subsequent discussions, ISAC will modify their claims process, as appropriate.

Also, during FY2006, ISAC initiated an internal project designed to establish a post-claim review process meeting the requirements of USDE as outlined in a letter of December 19, 2005. ISAC is also part of the student loan industry-wide work group presently formulating agreed approaches to the post-claim review process, as requested by the USDE. (For previous agency response, see Digest Footnote #11)

#### **FAILURE TO OBTAIN SUSPENSION AND DEBARMENT CERTIFICATIONS FROM SUBRECIPIENTS**

The Department of Transportation (DOT) did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the Airport Improvement Program.

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**DOT failed to verify contractor “suspension or debarment” status when contracts were issued**

During our review of 18 subrecipients of the Airport Improvement Program, we noted DOT did not include a suspension and debarment certification in its subrecipient agreements. As a result, DOT did not receive certifications that the subrecipients of the Airport Improvement Program were not suspended or debarred from participation in Federal assistance programs. Additionally, DOT did not perform a verification check with the “Excluded Parties List System” (EPLS) maintained by the General Services Administration for its subrecipients. During the year ended June 30, 2007, DOT passed through approximately \$72,237,000 to 36 subrecipients of the Airport Improvement Program. (Finding 07-69, pages 184-185) **This finding was first reported in the Statewide Single Audit in 2005.**

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**Auditor qualification due to failure to verify federal “debarment or suspension” status**

As a result of not verifying that subrecipients have not been debarred or suspended from participating in Federal assistance programs, the auditors qualified their opinion for the Airport Improvement Program.

We recommended DOT establish procedures to ensure grantees receiving individual awards for \$25,000 or more

certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance program.

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**DOT accepts finding and recommendation**

Department of Transportation officials agreed with the finding and stated they have added the appropriate language to its Agency and Participation Agreement which is signed by the subrecipient as well as the Director of the Division of Aeronautics. (For previous agency response, see Digest Footnote #12.)

**ISSUES INVOLVING MULTIPLE STATE AGENCIES**

**INADEQUATE MONITORING OF SUBRECIPIENT OMB CIRCULAR A-133 AUDIT REPORTS**

We noted weaknesses in reviews of subrecipient audit reports for the following agencies:

| <b>Agency</b>                     | <b>Program</b>  | <b>Finding</b>         |
|-----------------------------------|---|------------------------|
| Children & Family Services (DCFS) | TANF<br>Foster Care Title IV-E<br>Adoption Assistance<br>Social Services Block Grant  | 07-36<br>pages 111-112 |
| Public Health (DPH)               | Centers for Disease Control & Prevention<br>Investigations and Technical Assistance (Bioterrorism)<br>HIV Care Formula Grants | 07-45<br>pages 129-131 |
| IL Community College Board (ICCB) | Voc ED – Basic Grants to States   | 07-56<br>pages 153-154 |
| State Board of Elections (SBOE)   | Help America Vote Act<br>Requirements Payments  | 07-82<br>pages 210-211 |

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**Multiple subrecipient monitoring deficiencies were noted**

Pass through entities are required to monitor their subrecipients expending more than \$500,000 in federal awards during their fiscal year to include the submission of OMB Circular A-133 reports upon completion of an audit. Program staff for each of the agencies are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to their records; and (3) Type A programs are being audited at least every three years. Additionally, program staff is responsible for evaluating the type of audit opinion issued (i.e. unqualified,



qualified, and adverse) and issuing management decisions on findings reported within required timeframes. **This finding was first reported for DCFS and DPH in the 2000 and 2005 Statewide Single Audits, respectively.**

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**Auditor qualification pertaining to subrecipient monitoring**

As a result of the agencies' failure to adequately monitor subrecipients, the auditors qualified their report for the 8 federal programs listed in the above table.

We recommended all four agencies establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. In addition, we made other specific recommendations for each of the four agencies.

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**All agencies accept auditor recommendation**

DCFS, DPH, ICCB, and SBOE officials accepted our findings and recommendations. (For previous DCFS and DPH responses, see Digest footnote #6 and #10, respectively).

**INADEQUATE ON-SITE MONITORING OF SUBRECIPIENTS**

We noted weaknesses in on-site monitoring of subrecipients for the following agencies:

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**Lack of on-site monitoring of subrecipients**

|                                    |  |  |
|------------------------------------|--|--|
| Aging (DOA)                        | Aging Cluster  | 07-40<br>pages 119-120                               |
| Public Health (DPH)                | Centers for Disease Control & Prevention<br>Investigations and Technical Assistance (Bioterrorism)<br>HIV Care Formula Grants  | 07-44<br>pages 127-128                               |
| IL State Board of Education (ISBE) | Title I Grants to Local Ed Agencies<br>Special Education Cluster<br>Voc ED – Basic Grants to States<br>Twenty-First Century<br>Community Learning Centers<br>Improving Teacher Quality<br>State Grants | 07-53<br>pages 145-147<br><br>07-54<br>pages 148-150 |
| Transportation (DOT)               | Airport Improvement Program  | 07-70<br>pages 186-187                               |
| State Board of Elections (SBOE)    | Help America Vote Act<br>Requirements Payments   | 07-81<br>pages 208-209                               |

These agencies pass-through federal funding to subrecipients for the purpose(s) established by federal regulations. As pass-through entities, these agencies monitor subrecipients primarily by reviewing grant applications, receiving periodic financial and programmatic reports, reviewing invoices, establishing policies and procedures, providing training and guidance, performing informal evaluations (on-site reviews) and receiving OMB Circular A-133 audit reports.

According to federal regulations, a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. **This finding for DOA, DPH and DOT was first reported in the Statewide Single Audit in 2003, 2004 and 2005, respectively.**

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**Auditor qualification pertaining to subrecipient monitoring**

As a result of these agencies' failure to adequately monitor subrecipients, the auditors qualified their report for 10 programs listed in the above table.

We recommended the agencies: (1) develop formal policies and procedures, (2) perform periodic on-site reviews which include reviewing financial and programmatic records, observation of operations, and/or processes, and (3) evaluate current monitoring staffing to ensure adequacy to complete monitoring within prescribed timeframes to ensure subrecipients are administering the federal programs in accordance with the applicable laws and regulations.

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**All agencies accept auditor recommendation**

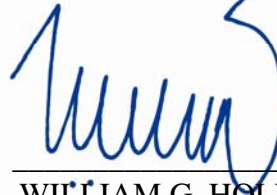
DOA, DPH, ISBE, DOT and SBOE accepted our findings and recommendations. (For previous DOA, DPH and DOT responses, see Digest Footnotes #7, #9 and #13.)

## **OTHER FINDINGS**

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2008.

## **AUDITORS' OPINION**

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2007 is presented fairly in all material respects.



WILLIAM G. HOLLAND, Auditor General

WGH:SES:pp

## **SPECIAL ASSISTANT AUDITORS**

KPMG LLP was our special assistant auditor for this audit.

## **DIGEST FOOTNOTES**

Previous responses by the Department of Human Services

### **#1 Failure to Perform Eligibility Re-determinations within Prescribed Timeframes (DHS)**

2006: Recommendation accepted. The Department is to review the process for performing eligibility determinations and make changes that would ensure improvement in rates.

### **#2 Failure to Follow and Document TANF Sanction Procedures (DHS)**

2006: Recommendation not accepted. The Department was very cautious in sanctioning during the amnesty period awaiting a new intake model which has now been implemented.

### **#3 Unallowable Expenditures Charged to the Vocational Rehabilitation Program (DHS)**

2006: Recommendation accepted. The Department has developed a quality assurance process to monitor allowability of payments and emphasize to field staff the importance of documenting and completing case notes.

Previous responses by Department of Children and Family Services

### **#4 Missing Documentation in Adoption Assistance Program (DCFS)**

2006: Recommendation accepted. Department developed new checklist which must be complete prior to acceptance. The Department will

reduce claims questioned by auditor.

**#5 Failure To Ensure Required Judicial Determinations Were Made (DCFS)**

2006: Recommendation accepted. The Department will review and make necessary changes to procedures for obtaining, retaining, making timely determination and language in agreements.

**#6 Inadequate and Untimely Monitoring of Subrecipients (DCFS)**

2006: Recommendation accepted. The Department has developed and implemented a procedure to track the receipt of reports and follow-up on all audits not received within required timeframe

Previous responses by Department on Aging

**#7 Inadequate On-Site Monitoring of Subrecipients (Aging)**

2006: Recommendation accepted. The Department has inquired other State Units of Aging as to frequency of on-site reviews, types of documents examined, and obtain copies of review instruments. The Department has adopted a 3 year on-site area review cycle.

Previous responses by the Department of Public Health

**#8 Inadequate Process for Determining Client Eligibility (DPH)**

2006: Recommendation accepted. The Department requires a signed affidavit, and if a client becomes Medicaid eligible, the program is reimbursed.

**#9 Inadequate On-Site Monitoring of Subrecipients (DPH)**

2006: Recommendation accepted. In FY2006, the Bioterrorism Program staff began including the fiscal and administrative on-site reviews for the Department. Also, the Department will include grantees that are not local health departments for on-site inspections.

**#10 Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports (DPH)**

2006: Recommendation accepted. The Department has implemented a positive response procedures with their grantees. They will either send in the A-133 audit report and submitting a letter indicating none is required i.e. below threshold.

Previous responses by the Illinois Student Assistance Commission

**#11 Processing and Submission of Re-insurance Claims (ISAC)**

2006: ISAC has appealed the finding identified by USDE-OIG and are actively engaged in discussions within the guaranty agency community concerning the interpretation of regulations related to the processing and submission of re-insurance claim. ISAC has initiated a post-claim review process meeting the requirements of the USDE.

Previous responses by the Department of Transportation

**#12 Failure to Obtain Suspension and Debarment Certifications from Subrecipients (DOT)**

2006: Recommendation accepted. The Department has added the clause to aeronautic's agency and participation agreements.

**#13 Inadequate On-Site Monitoring of Subrecipient (DOT)**

2005: Recommendation not accepted. The Department states that grant funds are provided only after all required documentation is in place. Also, the Department has a FAA letter that indicates they do not expect anything more than signed certifications.