

STATE OF ILLINOIS

Single Audit Report

For the Year Ended June 30, 2008

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

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

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

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

STATE OF ILLINOIS

Single Audit Report

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Other Reports Issued Applicable to the Single Audit:

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2008 was issued under separate cover.

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Year Ended June 30, 2008 was issued under separate cover by the Auditor General of the State of Illinois.

STATE OF ILLINOIS

Single Audit Report

Summary

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

Auditors' Reports

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

Adverse:

HIV Care Formula Grants

Qualifications (Scope Limitation):

Special Supplemental Nutrition Program for Women, Infants, and Children
Immunization Grants

Qualifications (Noncompliance):

Food Stamps Cluster
Airport Improvement Program
Title I Grants to Local Educational Agencies
Special Education Cluster
Career and Technical Education – Basic Grants to States
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Aging Cluster
Temporary Assistance for Needy Families
Foster Care – Title IV-E
Adoption Assistance
State Children's Insurance Program
Medicaid Cluster

Summary of Audit Findings

Number of audit findings:	<u>This audit</u>	<u>Prior audit</u>
This audit	97	87
Repeated audit findings	58	59
Prior findings implemented or not repeated	29	36



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

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

Honorable William G. Holland
Auditor General
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the accompanying schedule of expenditures of federal awards of the State of Illinois (the Schedule) for the year ended June 30, 2008. This Schedule is the responsibility of the State of Illinois' management. Our responsibility is to express an opinion on this Schedule based on our audit.

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

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

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



In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Illinois, as described above, for the year ended June 30, 2008, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009 on our consideration of the State of Illinois' internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

June 30, 2009

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Agriculture</u>			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 3,411	\$ 164
Wildlife Services	10.028	75	
Conservation Reserve Program	10.069	2	
Inspection Grading and Standardization	10.162	10	—
Market Protection and Promotion	10.163	77	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,799	—
Meat, Poultry, and Egg Products Inspection	10.477	13	—
Cooperative Extension Service	10.500	44	30
Food Donation	10.550 *	40,426	40,426
Food Stamp Cluster:			
Food Stamps	10.551 *	\$ 1,674,144	
State Administrative Matching Grants for Food Stamp Program	10.561 *	104,972	9,771
Total Food Stamp Cluster			1,779,116
Child Nutrition Cluster:			
School Breakfast Program	10.553 *	64,086	63,081
National School Lunch Program	10.555 *	304,422	302,617
Special Milk Program for Children	10.556 *	3,432	3,432
Summer Food Service Program for Children	10.559 *	7,840	7,479
Total Child Nutrition Cluster			379,780
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557 *	206,089	194,423
Child and Adult Care Food Program	10.558 *	105,087	103,799
State Administrative Expenses for Child Nutrition	10.560	5,802	507
Commodity Supplemental Food Program	10.565	3,415	3,412
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,148	1,745
Emergency Food Assistance Program (Food Commodities)	10.569	8,350	8,350
Total Emergency Food Assistance Cluster			10,498
WIC Farmers' Market Nutrition Program (FMNP)	10.572	186	24
Team Nutrition Grants	10.574	163	163
Senior Farmers Market Nutrition Program	10.576	348	31
Cooperative Forestry Assistance	10.664	608	162
Schools and Roads Cluster:			
Schools and Roads Grants to States	10.665	304	
Total Schools and Roads Cluster			304
Urban and Community Forestry Program	10.675	56	28
Forest Legacy Program	10.676	28	—
Wildlife Habitat Incentive Program	10.914	2	—
Total U.S. Department of Agriculture		2,541,339	
<u>U.S. Department of Commerce</u>			
Coastal Zone Management Administration Awards	11.419	37	—
Total U.S. Department of Commerce		37	
<u>U.S. Department of Defense</u>			
Procurement Technical Assistance For Business Firms	12.002	502	292
Payments to States in Lieu of Real Estate Taxes	12.112	700	700
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	1,171	—
Military Construction, National Guard	12.400	8,656	—
National Guard Military Operations and Maintenance (O&M) Projects	12.401	14,968	—
National Guard Civilian Youth Opportunities	12.404	3,942	—
Troops-to-Teachers/Spouses-to-Teachers	12.XXX	137	—
Total U.S. Department of Defense		30,076	

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grants/State's Program	14.228	\$ 27,121	\$ 25,673
Emergency Shelter Grants Program	14.231	2,696	2,526
Supportive Housing Program	14.235	67	—
Housing Opportunities for Persons with AIDS	14.241	944	732
Fair Housing Assistance Program State and Local	14.401	867	—
Section 8 Housing Choice Vouchers	14.871	558	454
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	1,728	1,431
Total U.S. Department of Housing and Urban Development		33,981	
<u>U.S. Department of Interior</u>			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	2,131	53
Abandoned Mine Land Reclamation (AMLR) Program	15.252	9,778	537
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	\$ 4,837	2,772
Wildlife Restoration	15.611	4,434	2,094
Total Fish & Wildlife Cluster		9,271	
Fish and Wildlife Management Assistance	15.608	43	—
Coastal Wetlands Planning, Protection and Restoration Act	15.614	405	—
Cooperative Endangered Species Conservation Fund	15.615	16	4
Clean Vessel Act	15.616	1	1
Sportfishing and Boating Safety Act	15.622	34	10
Hunter Education and Safety Program	15.626	222	—
Partners for Fish and Wildlife	15.631	17	1
Landowner Incentive	15.633	332	—
State Wildlife Grants	15.634	1,095	971
U.S. Geological Survey-Research and Data Collection	15.808	20	—
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	22	7
Historic Preservation Fund Grants In Aid	15.904	1,135	109
Outdoor Recreation Acquisition, Development and Planning	15.916	1,760	750
Abraham Lincoln Presidential Library and Museum	15.XXD	90	—
Total U.S. Department of Interior		26,372	
<u>U.S. Department of Justice</u>			
Federal Asset Forfeiture	16.000	1,416	—
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	117	—
Juvenile Accountability Incentive Block Grants	16.523	1,498	953
Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	147	146
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	1,121	715
Missing Children's Assistance	16.543	238	—
Title V Delinquency Prevention Program	16.548	1	1
National Criminal History Improvement Program (NCHIP)	16.554	349	349
National Institute of Justice Research, Evaluation, and Development Projects Grants	16.560	312	—
Crime Laboratory Improvement Combined Offender DNA Index			
System Backlog Reduction	16.564	2,008	—
Crime Victim Assistance	16.575	17,216	15,673
Crime Victim Compensation	16.576	487	—
Edward Byrne Memorial Formula Grant Program	16.579	4,027	1,780
Edward Byrne Memorial State and Local Law Enforcement Assistance			
Discretionary Grants Program	16.580	309	—
Crime Victim Assistance/Discretionary Grants	16.582	5	—
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	18,868	216
Violence Against Women Formula Grants	16.588	4,914	4,172
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	103	—
Residential Substance Abuse Treatment for State Prisoners	16.593	1,452	99
Corrections Research and Evaluation and Policy Formulation	16.602	57	—
State Criminal Alien Assistance Program	16.606	7,948	—
Bulletproof Vest Partnership Program	16.607	16	4
Community Prosecution and Project Safe Neighborhoods	16.609	1,097	774
Public Safety Partnership and Community Policing Grants	16.710	778	—

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Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Justice (Continued)</u>			
Enforcing Underage Drinking Laws Program	16.727	\$ 763	\$ 485
Edward Byrne Memorial Justice Assistance Grant Program	16.738	8,356	6,850
Forensic DNA Capacity Enhancement Program	16.741	110	—
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	444	39
Forensic Casework DNA Backlog Reduction Program	16.743	345	—
Anti-Gang Initiative	16.744	258	60
Equitable Sharing of Federal Forfeitures	16.XXX	95	—
Total U.S. Department of Justice		74,855	
<u>U.S. Department of Labor</u>			
Labor Force Statistics	17.002	2,619	—
Compensation and Working Conditions	17.005	197	—
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207 *	\$ 30,436	—
Disabled Veterans' Outreach Program (DVOP)	17.801 *	2,912	—
Local Veterans' Employment Representative Program	17.804 *	3,369	—
Total Employment Services Cluster		36,717	
Unemployment Insurance	17.225 *	2,183,718	—
Senior Community Service Employment Program	17.235	3,251	3,065
Trade Adjustment Assistance	17.245	10,399	10,149
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	38,310	36,636
WIA Youth Activities	17.259 *	42,256	40,220
WIA Dislocated Workers	17.260 *	64,279	60,784
Total Workforce Investment Act Cluster		144,845	
WIA Pilots, Demonstrations, and Research Projects	17.261	499	159
Work Incentive Grants	17.266	471	471
Incentive Grants WIA Section 503	17.267	642	625
Work Opportunity Tax Credit Program and Welfare-to-Work Tax Credit	17.271	1,242	—
Temporary Labor Certification for Foreign Workers	17.273	144	—
Consultation Agreements	17.504	1,854	—
Mine Health and Safety Grants	17.600	212	—
Total U.S. Department of Labor		2,386,810	
<u>U.S. Department of Transportation</u>			
Airport Improvement Program	20.106 *	90,481	50,734
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205 *	1,229,855	104,027
Total Highway Planning and Construction Cluster		1,229,855	
National Motor Carrier Safety	20.218	5,821	—
Recreational Trails Program	20.219	2,463	—
Commercial Driver License State Programs	20.232	335	—
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	658	605
Federal Transit Formula Grant	20.507	358	—
Total Federal Transit Cluster		1,016	
Federal Transit Metropolitan Planning Grants	20.505	1,421	—
Formula Grants for Other Than Urbanized Areas	20.509	10,591	7,934
Transit Services Program Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5,741	—
Total Transit Services Programs Cluster		5,741	
Public Transportation Research	20.514	35	—
State Planning and Research	20.515	445	131

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Schedule of Expenditures of Federal Awards
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Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Transportation (Continued)</u>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	\$ 8,193	\$ 5,006
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2,311	2,311
Occupant Protection	20.602	1,868	1,868
Safety Incentive Grants got Use of Seatbelts	20.604	52	52
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	677	432
Safety Belt Performance Grants	20.609	6,094	—
Incentive Grant Program to Increase Motorcyclist Safety	20.612	171	75
Total Highway Safety Cluster		\$ 19,366	
Pipeline Safety	20.700	532	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	424	358
Life Saver Conference	20.XXX	99	—
Total U.S. Department of Transportation		1,368,625	
<u>Equal Employment Opportunity Commission</u>			
Employment Discrimination State and Local Fair Employment			
Practices Agency Contracts	30.002	821	—
Total Equal Employment Opportunity Commission		821	
<u>General Services Administration</u>			
Election Reform Payments			
	39.011	4,507	—
Total General Services Administration		4,507	
<u>National Endowment for the Arts</u>			
Promotion of the Arts-Grants to Organizations and Individuals			
	45.024	206	205
Promotion of the Arts Partnership Agreements			
	45.025	698	698
Promotion of the Humanities Research			
	45.161	87	—
Grants to States			
	45.310	5,943	5,861
National Leadership Grants			
	45.312	9	—
Total National Endowment for the Arts		6,943	
<u>U.S. Small Business Administration</u>			
Small Business Development Center			
	59.037	3,027	1,645
Total U.S. Small Business Administration		3,027	
<u>U.S. Department of Veteran's Affairs</u>			
Grants to States for Construction of State Home Facilities			
	64.005	8,766	—
Veterans State Domiciliary Care			
	64.014	373	—
Veterans State Nursing Home Care			
	64.015	19,000	—
All Volunteer Force Educational Assistance			
	64.124	920	—
Manteno Veterans Homeless Program			
	64.XXX	6	—
Total U.S. Department of Veteran's Affairs		29,065	
<u>U.S. Environmental Protection Agency</u>			
State Indoor Radon Grants			
	66.032	539	407
Surveys, Studies, Investigations, Demonstrations and Special Purpose			
Activities Relating to the Clean Air Act	66.034	744	—
Water Pollution Control State, Interstate, and Tribal Program Support			
	66.419	96	—
Surveys, Studies, Investigations, Demonstrations, and Training Grants and			
Cooperative Agreements Section 104 (b)(3) of the Clean Water Act	66.436	114	—
Water Quality Management Planning			
	66.454	439	—
Capitalization Grants for Clean Water State Revolving Funds			
	66.458	15,000	15,000
Nonpoint Source Implementation Grants			
	66.460	8,762	5,995
Water Quality Cooperative Agreements			
	66.463	531	—
Wastewater Operator Training Grant Program (Technical Assistance)			
	66.467	23	—
Capitalization Grants for Drinking Water State Revolving Funds			
	66.468	9,022	7,929
Great Lakes Program			
	66.469	81	30

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Environmental Protection Agency (Continued)</u>			
State Grants to Reimburse Operators of Small Water Systems for			
Training and Certification Costs	66.471	\$ 359	\$ —
Beach Monitoring and Notification Program Implementation Grants	66.472	303	135
Water Protection Grants to the States	66.474	191	—
Performance Partnership Grants	66.605	18,371	45
Surveys, Studies, Investigations and Special Purpose Grants	66.606	725	—
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	300	—
Environmental Policy and Innovation Grants	66.611	25	—
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	344	—
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	163	—
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	349	—
Pollution Prevention Grants Program	66.708	17	—
Multi-Media Capacity Building Grants for States and Tribes	66.709	50	—
Superfund State, Political Subdivision, and Indian Tribe Site-Specific			
Cooperative Agreements	66.802	6,448	—
State and Tribal Underground Storage Tanks Program	66.804	301	—
Leaking Underground Storage Tank Trust Fund Program	66.805	1,950	—
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	515	—
State and Tribal Response Program Grants	66.817	1,211	—
Total U.S. Environmental Protection Agency		66,973	
<u>U.S. Department of Energy</u>			
State Energy Program	81.041	2,762	1,782
Weatherization Assistance for Low-Income Persons	81.042	12,051	11,690
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant:			
States and Tribal Concerns, Proposed Solutions	81.106	56	—
State Energy Program Special Projects	81.119	820	711
Total U.S. Department of Energy		15,689	
<u>U.S. Department of Education</u>			
Adult Education State Grant Program	84.002	23,642	22,431
Title I Grants to Local Educational Agencies	84.010 *	547,751	543,460
Migrant Education State Grant Program	84.011	1,642	1,623
Title I Program for Neglected and Delinquent Children	84.013	1,321	—
Special Education Cluster:			
Special Education - Grants to States	84.027 *	\$ 471,880	459,275
Special Education - Preschool Grants	84.173 *	16,522	15,931
Total Special Education Cluster		488,402	
Federal Family Education Loan Program	84.032G *	222,123	
Career and Technical Education - Basic Grants to States	84.048 *	44,315	42,699
Leveraging Educational Assistance Partnership	84.069	3,488	—
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126 *	87,562	20,359
Rehabilitation Services Service Projects	84.128	154	154
Migrant Education Coordination Program	84.144	86	68
Rehabilitation Services Client Assistance Program	84.161	541	—
Independent Living State Grants	84.169	730	729
Paul Douglas Teacher Scholarship	84.176	(6)	—
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177	1,382	1,077
Special Education Grants for Infants and Families with Disabilities	84.181	17,755	5,575
Byrd Honors Scholarships	84.185	1,570	—
Safe and Drug-Free Schools and Communities State Grants	84.186	12,016	11,775
Supported Employment Services for Individuals with Severe Disabilities	84.187	1,197	1,197
Education for Homeless Children and Youth	84.196	2,585	2,470
Even Start State Educational Agencies	84.213	3,650	3,488
Fund for the Improvement of Education	84.215	718	483
Assistive Technology	84.224	556	552
Tech-Prep Education	84.243	4,382	3,980
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	216	—
Charter Schools	84.282	1,279	1,214

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Education (Continued)</u>			
Twenty-First Century Community Learning Centers	84.287 *	\$ 39,613	\$ 38,895
State Grants for Innovative Programs	84.298	4,670	3,990
Education Technology State Grants	84.318	16,996	16,467
Special Education State Personnel Development	84.323	2,005	1,925
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	494	483
Advanced Placement Program	84.330	1,015	975
Grants to States for Incarcerated Youth Offenders	84.331	613	—
Comprehensive School Reform Demonstration	84.332	509	442
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,810	1,773
Teacher Quality Enhancement Grants	84.336	(39)	—
Transition to Teaching	84.350	335	280
Reading First State Grants	84.357 *	31,809	29,874
Rural Education	84.358	1,059	1,018
English Language Acquisition Grants	84.365	23,429	22,688
Mathematics and Science Partnerships	84.366	6,889	6,449
Improving Teacher Quality State Grants	84.367 *	104,284	102,419
Grants for State Assessments and Related Activities	84.369	17,148	—
Hurricane Education Recovery	84.938	(79)	—
Total U.S. Department of Education		1,721,617	
<u>National Archives and Records Administration</u>			
National Historical Publications and Records Grants	89.003	116	—
Total National Archives and Records Administration		116	
<u>Election Assistance Commission</u>			
Help America Vote Act Requirements Payments	90.401	8,785	8,785
Total Election Assistance Commission		8,785	
<u>U.S. Department of Health and Human Services</u>			
Public Health and Social Services Emergency Fund	93.003	67	—
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	174	118
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	189	179
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042	576	545
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	742	691
Aging Cluster:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044 *	\$ 15,897	14,767
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045 *	21,914	20,427
Nutrition Services Incentive Program	93.053 *	6,024	6,024
Total Aging Cluster		43,835	
Department of Health and Human Services	93.046	23	—
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	54	152
Special Programs for the Aging Title VII, Chapter 6 Allotments for Vulnerable Elder Rights Protection Program	93.049	3	—
Alzheimer's Disease Demonstration Grants to States	93.051	329	128
National Family Caregiver Support	93.052	5,985	5,653
Public Health Emergency Purchases	93.069	25,448	16,706
Demonstration Grants for Residential Treatment for Women and Their Children	93.102	48	—
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	3,492	3,486
Maternal and Child Health Federal Consolidated Programs	93.110	368	297
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,139	249
Primary Care Services Resource Coordination and Development	93.130	252	169
Injury Prevention and Control Research and State and Community Based Programs	93.136	2,447	2,432

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Health and Human Services (Continued)</u>			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	\$ 2,390	\$ 2,317
Health Program for Toxic Substances and Disease Registry	93.161	511	—
Grants to States for Loan Repayment Program	93.165	306	306
Disabilities Prevention	93.184	89	—
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	(55)	—
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	959	1
Telehealth Network Grants	93.211	215	214
Family Planning Services	93.217	7,727	6,821
Consolidated Knowledge Development and Application (KD&A) Program	93.230	360	351
Traumatic Brain Injury State Demonstration Grant Program	93.234	91	—
Abstinence Education Program	93.235	2,074	1,937
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	51	—
State Rural Hospital Flexibility Program	93.241	2,225	2,225
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	8,240	6,785
Rural Access to Emergency Devices Grant	93.259	87	87
Immunization Grants	93.268 *	61,525	596
Substance Abuse and Mental Health Services Access to Recovery Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.275	2,243	1,491
Small Rural Hospital Improvement Grant Program	93.283	13,387	5,871
Ruminant Feed Ban Support Project	93.301	501	501
Promoting Safe and Stable Families	93.449	229	—
Temporary Assistance for Needy Families	93.556	16,022	8,789
Child Support Enforcement	93.558 *	537,011	236,788
Refugee and Entrant Assistance State Administered Programs	93.563 *	124,506	20,014
Low-Income Home Energy Assistance	93.566	6,691	2,147
Community Services Block Grant	93.568 *	137,933	134,628
Child Care Development Funds Cluster:	93.569 *	31,719	29,660
Child Care and Development Block Grant	93.575 *	\$ 90,734	83,151
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596 *	115,704	115,704
Total Child Care Development Funds Cluster		206,438	
Refugee and Entrant Assistance Discretionary Grants	93.576	1,005	504
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	886	886
State Court Improvement Program	93.586	673	324
Community Based Child Abuse Prevention Grants	93.590	1,068	—
Grants to States for Access and Visitation Programs	93.597	259	264
Chafee Education and Training Vouchers Program (ETV)	93.599	1,470	113
Head Start	93.600	2,825	2,268
Child Support Enforcement Demonstrations and Special Projects	93.601	195	—
Assets for Independence Demonstration Program	93.602	301	—
Voting Access for Individuals with Disabilities Grants to States	93.617	83	83
Basic Center Grant	93.623	220	220
Developmental Disabilities Basic Support and Advocacy Grants	93.630	3,205	2,170
Children's Justice Grants to States	93.643	712	—
Child Welfare Services - State Grants	93.645	19,746	9,198
Social Services Research and Demonstration	93.647	185	—
Foster Care - Title IV-E	93.658 *	172,144	59,599
Adoption Assistance	93.659 *	87,313	6,231
Social Services Block Grant	93.667 *	127,372	34,037
Child Abuse and Neglect State Grants	93.669	1,201	—
Child Abuse and Neglect Discretionary Activities	93.670	168	—
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	93.671	2,823	2,651
Chafee Foster Care Independence Program	93.674	6,231	875
State Children's Insurance Program	93.767 *	348,437	—

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Health and Human Services (Continued)</u>			
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	\$ 207	\$ —
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775 *	\$ 5,084	—
State Survey and Certification of Health Care Providers and Suppliers	93.777 *	24,253	6,821
Medical Assistance Program	93.778 *	6,578,648	79,005
Total Medicaid Cluster		6,607,985	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	1,889	486
Medicaid Transformation Grants	93.793	1,862	
National Bioterrorism Hospital Preparedness Program	93.889	18,710	16,960
Grants to States for Operation of Offices of Rural Health	93.913	279	109
HIV Care Formula Grants	93.917 *	33,924	6,270
Healthy Start Initiative	93.926	1,887	1,791
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	277	—
HIV Prevention Activities Health Department Based	93.940	187	—
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	4,506	1,812
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	1,104	62
Assistance Programs for Chronic Disease Prevention and Control	93.945	1,072	547
Block Grants for Community Mental Health Services	93.958	16,136	15,314
Block Grants for Prevention and Treatment of Substance Abuse	93.959 *	78,421	64,689
Health Professions Preparatory Scholarship Program for Indians	93.971	13	—
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	2,100	265
Cooperative Agreements for State Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	908	538
National Health Promotion	93.990	(20)	
Preventive Health and Health Services Block Grant	93.991	967	577
Maternal and Child Health Services Block Grant to the States	93.994	20,487	16,020
Adolescent Family Life Demonstration Projects	93.995	331	324
Total U.S. Department of Health and Human Services		8,820,400	
<u>Corporation for National and Community Service</u>			
State Commissions	94.003	293	47
Learn and Serve America School and Community Based Programs	94.004	760	658
AmeriCorps	94.006	6,040	6,040
Planning and Program Development Grants	94.007	45	45
Training and Technical Assistance	94.009	126	126
Total Corporation for National and Community Service		7,264	
<u>Social Security Administration</u>			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001 *	66,638	—
Total Disability Insurance/SSI Cluster		66,638	
Social Security Work Incentives Planning and Assistance Program	96.008	427	141
Total Social Security Administration		67,065	

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
U.S. Department of Homeland Security			
Homeland Security Preparedness Technical Assistance Program	97.007	\$ 429	\$ —
Urban Areas Security Initiative	97.008	14,490	14,490
Boating Safety Financial Assistance	97.012	2,305	—
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	83	83
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	228	—
Flood Mitigation Assistance	97.029	26	26
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	26,739	24,459
Hazard Mitigation Grant	97.039	611	803
Chemical Stockpile Emergency Preparedness Program	97.040	1,044	635
National Dam Safety Program	97.041	76	—
Emergency Management Performance Grants	97.042	3,979	1,325
Assistance to Firefighters Grant	97.044	18	—
Cooperating Technical Partners	97.045	2,044	2,021
Pre-Disaster Mitigation	97.047	577	357
Interoperable Communications Equipment	97.055	68	68
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004 *	\$ 1,123	992
Urban Areas Security Initiative	97.008 *	254	254
Citizen Corps	97.053 *	86	14
Homeland Security Grant Program	97.067 *	36,797	34,062
State Homeland Security Program (SHSP)	97.073 *	9,185	8,360
Law Enforcement Terrorism Prevention Program	97.074 *	1,496	610
Total Homeland Security Cluster		48,941	
Map Modernization Management Support	97.070	113	—
Rail and Transit Security Grant Program	97.075	6,638	6,638
Buffer Zone Protection Plan (BZPP)	97.078	1,672	716
Homeland Security Biowatch Program	97.091	486	—
Total U.S. Department of Homeland Security		110,567	
Total expenditures of federal awards		\$ 17,324,934	\$ 3,730,245

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

*Denotes Major Program

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The schedule of expenditures of federal awards includes all federal award programs administered by the State of Illinois (the State) except for component units for the fiscal year ended June 30, 2008. The State's financial reporting entity is described in note 1B of the State's Comprehensive Annual Financial Report.

The entities listed below are Discretely Presented Component Units in the State's Comprehensive Annual Financial Report, which received federal financial assistance for the year ended June 30, 2008. Each of these entities is subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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

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

Additionally, the federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program are not reflected in the schedule of expenditures of federal awards for the year ended June 30, 2008. IDAPP has elected to have a separate lender compliance audit performed on an annual basis in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

(b) Basis of Presentation

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

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

(c) *Basis of Accounting*

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

(2) **Description of Major Federal Award Programs**

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

US Department of Agriculture

Food Donation (CFDA No. 10.550)

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

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

The objective of these programs is to help low-income households by increasing their food purchasing ability and to provide federal financial aid to state agencies for costs incurred to operate the program.

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

The purpose of these programs is to assist states in providing nutritious meals to eligible children and encouraging the domestic consumption of nutritious agricultural commodities. In addition, these programs provide subsidies to encourage the consumption of fluid milk by children. Furthermore, these programs are designed to conduct non-profit food service programs for low-income children during summer months and when schools are out of session or closed for vacation.

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

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

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

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

(Continued)

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

US Department of Labor

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

The objective of the Employment Service program is to assist persons in securing employment and workforce information by providing a variety of job search assistance without charge to job seekers and to employers seeking qualified individuals to fill job openings.

The objective of the Disabled Veterans' Outreach program is to provide intensive services to meet the employment needs of disabled and other eligible veterans; and to provide maximum emphasis in meeting the employment needs of those who are economically or educationally disadvantaged, including homeless veterans and veterans with barriers to employment.

The objective of the Local Veterans' Employment Representative program is to conduct outreach to employers including conducting seminars for employers, conducting job search workshops, and establishing job search groups; and to facilitate employment, training, and placement services furnished to veterans in a state under the applicable state employment service.

Unemployment Insurance (CFDA No. 17.225)

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

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

The objective of these programs are to provide workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by the participants in order to improve the quality of the workforce; to design, with States and local communities, a revitalized, workforce investment system that will help low income youth acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers and productive adulthood; and to reemploy dislocated workers, improve the quality of the workforce and enhance the productivity and competitiveness of the nation's economy.

US Department of Transportation

Airport Improvement Program (CFDA No. 20.106)

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

(Continued)

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Highway Planning and Construction (CFDA No. 20.205)

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

US Department of Education

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

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

Special Education Cluster: Special Education — Grants to States (CFDA No. 84.027) / Special Education — Preschool Grants (CFDA No. 84.173)

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

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

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

Career and Technical Education — Basic Grants to States (CFDA No. 84.048)

The purpose of this program is to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs.

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

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

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Twenty-First Century Community Learning Centers (CFDA No. 84.287)

The purpose of this program is to create community-learning centers that provide academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. This program will help students meet state and local student standards in core academic subjects, such as reading and math; and offers literacy and other educational services to the families of participating children.

Reading First State Grants (CFDA No. 84.357)

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

Improving Teacher Quality State Grants (CFDA No. 84.367)

The objective of this program is to provide grants to State Education Agencies on a formula basis to increase student academics achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

US Department of Health and Human Services

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

The objective of the Special Programs for the Aging-Title III, Part B is to encourage state agencies on aging and area agencies on aging to concentrate resources to develop and implement comprehensive coordinated community-based systems of service for older individuals via statewide planning and area planning and provision of supportive services to maximize the informal support provided to older Americans to enable them to remain in their homes and communities.

The objective of the Special Programs for the Aging-Title III, Part C is to provide grants to states to support nutrition services including nutritious meals and nutrition education for older Americans in order to maintain health, independence and quality of life.

The objective of the Nutrition Services Incentive program is to reward effective performance by states and tribes in the efficient delivery of nutritious meals to older adults through the use of cash or commodities.

Immunization Grants (CFDA No. 93.268)

This program assists states and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases.

(Continued)

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Temporary Assistance for Needy Families (CFDA No. 93.558)

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

Child Support Enforcement (CFDA No. 93.563)

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

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

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

Community Services Block Grant (CFDA No. 93.569)

The objective of this program is to provide assistance to States and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, the revitalization of low income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

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

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

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

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

Adoption Assistance (CFDA No. 93.659)

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

(Continued)

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

Social Services Block Grant (CFDA No. 93.667)

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

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

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

Medicaid Cluster: State Medicaid Fraud Control Units (CFDA No. 93.775) / State Survey and Certification of Healthcare Providers and Suppliers (CFDA No. 93.777) / Medical Assistance Program (CFDA No. 93.778)

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

HIV Care Formula Grants (CFDA No. 93.917)

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

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

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

US Social Security Administration

Social Security – Disability Insurance (CFDA No. 96.001)

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

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

US Department of Homeland Security

Homeland Security Cluster: State and Domestic Preparedness Equipment Support Program (CFDA No. 97.004) / Urban Area Security Initiative (CFDA No. 97.008) / Citizens Corps (CFDA No. 97.053) / Homeland Security Grant Program (CFDA No. 97.067) / State Homeland Security Program (CFDA No. 97.073) / Law Enforcement Terrorism Prevention Program (CFDA No. 97.074)

The objectives of these programs are to enhance the capacity of the State and local first responders to respond to terrorism incidents involving chemical, biological, nuclear, radiological, incendiary, and explosive devices and to prevent, protect against, and recover from terrorist attacks and other disasters.

(3) Non-monetary Assistance Inventory

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

- Food Donation Program (CFDA No. 10.550) — Federal expenditures for this program represent the value of the food received and distributed to other governmental agencies and are valued at the value assigned by the donor, the US Department of Agriculture (USDA).
- Food Stamps (CFDA No. 10.551) — Federal expenditures for this program represent the value of food stamp coupons issued to eligible recipients and cash assistance made available to eligible recipients in lieu of food stamp coupons.
- Commodity Supplemental Food Program (CFDA No. 10.565) — Federal expenditures for this program represent the value of donated commodities received from the USDA. The commodities were valued based on USDA price lists.
- Emergency Food Assistance Program (CFDA No. 10.569) — Federal expenditures for this program represent the value of donated commodities received from the USDA. The Commodities were valued based on USDA price lists.
- Immunization Grants (CFDA No. 93.268) — Federal expenditures for this program can either be in cash grants or represent the value of donated vaccine, personnel and other items “in lieu of cash” received from the US Department of Health and Human Services.

(4) Federal Loan Guarantees

The original principal balance of loans guaranteed by the Illinois Student Assistance Commission (ISAC) under Federal Family Education Loans Guaranty Program (CFDA No. 84.032G) was approximately \$7,775,445,000 as of June 30, 2008. Additionally, the outstanding balance of defaulted loans held by ISAC under this program was approximately \$566,734,000 as of June 30, 2008.



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

Honorable William G. Holland
Auditor General
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the schedule of expenditures of federal awards (the Schedule) of the State of Illinois (the State) as of and for the year ended June 30, 2008, and have issued our report thereon dated June 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting of the Schedule was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and others that we consider to be material weaknesses.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's schedule of expenditures of federal awards that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in findings 08-01, 08-03, 08-04, and 08-17 included in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the schedule of expenditures of federal awards will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 08-01, 08-03, 08-04, and 08-17 to be material weaknesses.

Compliance and Other Matters

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

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

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

KPMG LLP

June 30, 2009



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

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

Honorable William G. Holland
Auditor General
State of Illinois:

Compliance

We have audited the compliance of the State of Illinois (the State) with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

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



Adverse

As described in the accompanying schedule of findings and questioned costs and finding 08-46 and 08-47, the State did not comply with the allowable costs/cost principles, eligibility, and maintenance of effort compliance requirements that are applicable to its HIV Care Formula Grants program. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to this program.

Qualifications (Scope Limitation)

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

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Special Supplemental Nutrition Program for Women, Infants, and Children	Allowable Costs/Cost Principles and Special Tests and Provisions	08-06
IL Department of Public Health	Immunization Grants	Allowable Costs/Cost Principles and Special Tests and Provisions	08-45

Qualifications (Noncompliance)

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

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	08-03
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-03
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-03
IL Department of Human Services	Food Stamp Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	08-04
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	08-04
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-04
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-04



State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	08-05
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-09
IL Department of Healthcare and Family Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-17
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-17
IL Department of Healthcare and Family Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-18
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-18
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	08-19
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	08-35
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	08-36
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	08-37
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	08-38
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	08-39
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	08-39
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	08-39
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	08-42
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	08-43
IL State Board of Education	Title I Grants to Local Educational Agencies	Allowable Costs/Cost Principles and Special Tests and Provisions	08-54
IL State Board of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	08-55
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	08-55
IL State Board of Education	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	08-55



State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	08-55
IL State Board of Education	Reading First State Grants	Subrecipient Monitoring	08-55
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	08-55
IL State Board of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	08-56
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	08-56
IL Community College Board	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	08-58
IL Community College Board	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	08-59
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	08-78

In our opinion, because of the effects of the noncompliance described in the second preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that are applicable to the HIV Care Formula Grants program. Also in our opinion, except for the noncompliance described in the preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence described in the third preceding paragraph relating to the Special Supplemental Nutrition Program for Women, Infants, and Children program and the Immunization Grants program, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 08-07, 08-10, 08-11, 08-12, 08-13, 08-15, 08-16, 08-20, 08-21, 08-22, 08-23, 08-24, 08-25, 08-26, 08-27, 08-28, 08-29, 08-30, 08-31, 08-32, 08-33, 08-34, 08-40, 08-41, 08-44, 08-48, 08-49, 08-50, 08-52, 08-53, 08-57, 08-60, 08-61, 08-62, 08-63, 08-64, 08-65, 08-66, 08-67, 08-68, 08-69, 08-71, 08-73, 08-75, 08-76, 08-79, 08-80, 08-81, 08-82, 08-85, 08-86, 08-87, 08-88, 08-89, 08-90, 08-91, 08-92, 08-93, 08-94, 08-95, 08-96, and 08-97.

Internal Control Over Compliance

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



Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 08-02 to 08-97 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 08-02, 08-03, 08-04, 08-05, 08-06, 08-08, 08-09, 08-10, 08-11, 08-16, 08-17, 08-18, 08-19, 08-20, 08-21, 08-22, 08-23, 08-24, 08-25, 08-26, 08-27, 08-28, 08-29, 08-31, 08-35, 08-36, 08-37, 08-38, 08-39, 08-40, 08-42, 08-43, 08-45, 08-46, 08-47, 08-48, 08-49, 08-50, 08-51, 08-54, 08-55, 08-56, 08-57, 08-58, 08-59, 08-60, 08-65, 08-66, 08-75, 08-78, 08-85, 08-86, 08-91, 08-92, 08-94, 08-95, 08-96, and 08-97 to be material weaknesses.

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

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

KPMG LLP

June 30, 2009

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

(1) Summary of Auditors' Results

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

Adverse:

HIV Care Formula Grants

Qualifications (Scope Limitations):

Special Supplemental Nutrition Program for Women, Infants, and Children
Immunization Grants

Qualifications (Noncompliance):

Food Stamps Cluster
Airport Improvement Program
Title I Grants to Local Educational Agencies
Special Education Cluster
Career and Technical Education – Basic Grants to States
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Aging Cluster
Temporary Assistance for Needy Families
Foster Care – Title IV-E
Adoption Assistance
State Children's Insurance Program
Medicaid Cluster

The opinions for all other major programs are unqualified.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

(g) Major programs:

US Department of Agriculture

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

US Department of Labor

- Employment Services Cluster
- Unemployment Insurance
- Workforce Investment Act Cluster

US Department of Transportation

- Airport Improvement Program
- Highway Planning and Construction Cluster

US Department of Education

- Title I Grants to Local Educational Agencies
- Special Education Cluster
- Federal Family Education Loans – Guaranty Program
- Career and Technical Education – Basic Grants to States
- Rehabilitation Services – Vocational Rehabilitation Grants to States
- Twenty-First Century Community Learning Centers
- Reading First State Grants
- Improving Teacher Quality State Grants

US Department of Health and Human Services

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

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

US Social Security Administration

- Social Security – Disability Insurance

US Department of Homeland Security

- Homeland Security Cluster

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

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

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

Findings related to the basic financial statements for the year ended June 30, 2008 were reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

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

Finding No.	State Agency	Finding Title	Finding Type
08-01	IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Material weakness

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

Finding No.	State Agency	Finding Title	Finding Type
08-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
08-04	IL Department of Human Services	Failure to Properly Maintain Case File Records	Material weakness
08-17	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

Federal Agency: All Federal Agencies

Finding 08-01 *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner.

Accurate and timely financial reporting problems continue to exist even though the auditors have: 1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), 2) commented on the inadequacy of the financial reporting process of the State, and 3) regularly proposed adjustments to financial statements year after year. These findings have been directed primarily toward the Office of the State Comptroller (IOC) and major state agencies under the organizational structure of the Office of the Governor.

The State has not been able to solve these problems or make substantive changes to the system to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General continues to inform state agency officials that the post audit function **is not and should not** be an internal control mechanism for any operational activity related to financial reporting.

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare a series of complicated financial reporting forms (SCO forms) designed by the IOC to prepare the CAFR. These SCO forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of generally accepted accounting principles and of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC. Further, these agency personnel may lack the qualifications, time, support, and training necessary to timely and accurately report year end accounting information to assist the Comptroller in his preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

Although these SCO forms are subject to the review by the IOC financial reporting staff during the CAFR preparation process, the current process has resulted in several restatements relative to the financial statement reporting over the past several years.

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

- Expenditures for the Public Assistance Grants program were not reported in the appropriate fiscal year by the Illinois Emergency Management Agency in 2006 and 2007.
- Expenditures for the Early Intervention program were not reported in the appropriate fiscal year by the Illinois Department of Human Services in 2003, 2004, and 2005.
- Expenditures for the Highway Planning and Construction Cluster program were not recorded in the appropriate fiscal year by the Illinois Department of Transportation in 2004 and 2005.
- Other correcting entries and/or restatements were required in order to accurately state the financial information of the following agencies: Illinois Department of Healthcare and Family Services, Illinois Department of Children and Family Services, Illinois Department of Public Health, Illinois State Board of

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Education, Illinois Student Assistance Commission, Illinois Community College Board, Illinois Department of Commerce and Economic Opportunity, Illinois Department of Employment Security, Illinois Department of Natural Resources, Illinois Environmental Protection Agency, Illinois Department of Corrections, and Illinois Criminal Justice Information Authority.

- Major programs were not identified until six or more months subsequent to the end of the fiscal year by the following agencies: Illinois Department of Healthcare and Family Services, Illinois State Board of Education, Illinois Department of Public Health, Illinois Department of Commerce and Economic Opportunity, and Illinois Department of Employment Security.
- Preparation of the SEFA has not been completed by the State prior to March 31st in the past six years.

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

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

In discussing these conditions with the Office of the Governor, they stated that the weakness is due to (1) lack of a statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. The lack of a statewide accounting system is due to the inability to obtain capital financing necessary to implement a statewide system. The lack of adequate financial and grants management personnel is due to the failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill set to be properly trained. The lack of adequate financial and grants management systems requires a labor intensive, manual calculation of balance sheet and SEFA amounts in a short time frame which results in an increase of errors.

In discussing these conditions with IOC personnel, they indicated delays were caused by a separation in the responsibility for the State's internal control procedures among agencies and component units. The IOC has the statutory authority to request submission of financial information but does not currently have the ability to enforce those submissions on a timely basis from other state agencies.

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

Recommendation:

We recommend the Office of the Governor and the IOC work together with the state agencies to establish a corrective action plan to address the quality and timeliness of accounting information provided to and maintained by the IOC as it relates to year end preparation of the CAFR and the SEFA.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Office of the Governor's Response:

We agree. The Office of the Governor will continue efforts to work with the Office of the State Comptroller. The Governor's Office has established a corrective action plan to improve the quality and timeliness of accounting information provided by state agencies to the Comptroller for year-end preparation of the CAFR and the SEFA. In addition, the Governor's Office is in the process of working with the Illinois General Assembly to attempt to secure the capital funding needed to procure a statewide accounting and grants management system.

IOC's Response:

The IOC will continue to provide consultation and technical advice to State agencies in relation to financial reporting in order to increase the likelihood that State agencies will report financial information in a timely manner. The IOC will also seek legislation that provides it with enforcement tools to compel state agencies to comply with necessary reporting deadlines.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

The findings listed below are located on pages 40 through 255.

Finding No.	State Agency	Finding Title	Finding Type
08-02	IL Department of Human Services	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
08-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
08-04	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material noncompliance and material weakness
08-05	IL Department of Human Services	Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits	Material noncompliance and material weakness
08-06	IL Department of Human Services	Failure to Provide Adequate Food Instrument Disposition Documentation	Scope limitation and material weakness
08-07	IL Department of Human Services	Failure to Obtain Documentation of Assignment of Medical Support Rights	Noncompliance and significant deficiency
08-08	IL Department of Human Services	Missing Documentation in Beneficiary Eligibility Files	Material weakness
08-09	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Material noncompliance and material weakness
08-10	IL Department of Human Services	Unallowable Expenditures Charged to the Vocational Rehabilitation Program	Noncompliance and material weakness
08-11	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Noncompliance and material weakness
08-12	IL Department of Human Services	Failure to Amend the Public Assistance Cost Allocation Plan	Noncompliance and significant deficiency
08-13	IL Department of Human Services	Inaccurate Interest Liability Calculations	Noncompliance and significant deficiency
08-14	IL Department of Human Services	Untimely Review of OMB Circular A-133 Audit Reports	Significant deficiency
08-15	IL Department of Human Services	Inadequate Monitoring of Food Stamps Service Organization	Noncompliance and significant deficiency
08-16	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Tax Credits	Noncompliance and material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Finding No.	State Agency	Finding Title	Finding Type
08-17	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material noncompliance and material weakness
08-18	IL Department of Healthcare and Family Services	Failure to Determine Eligibility in Accordance with Program Regulations	Material noncompliance and material weakness
08-19	IL Department of Healthcare and Family Services	Failure to Process Medical Claims within Prescribed Timeframes	Material noncompliance and material weakness
08-20	IL Department of Healthcare and Family Services	Failure to Complete Provider Audits in a Timely Manner	Noncompliance and material weakness
08-21	IL Department of Healthcare and Family Services	Untimely Completion of Medicaid Eligibility Quality Control Reviews	Noncompliance and material weakness
08-22	IL Department of Healthcare and Family Services	Improper Reporting of Adjustments for the SCHIP Program	Noncompliance and material weakness
08-23	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring Procedures	Noncompliance and material weakness
08-24	IL Department of Healthcare and Family Services	Failure to Issue Management Decisions on Subrecipient A-133 Findings	Noncompliance and material weakness
08-25	IL Department of Healthcare and Family Services	Inadequate Process for Accurately Reporting Subrecipient Refunds	Noncompliance and material weakness
08-26	IL Department of Healthcare and Family Services	Unallowable Costs Used to Meet the TANF Maintenance of Effort	Noncompliance and material weakness
08-27	IL Department of Healthcare and Family Services	Inaccurate Allocation of Costs	Noncompliance and material weakness
08-28	IL Department of Healthcare and Family Services	Failure to Properly Perform Non-Custodial Parent Location Procedures	Noncompliance and material weakness
08-29	IL Department of Healthcare and Family Services	Failure to Properly Managed and Document Interstate Cases within KIDS	Noncompliance and material weakness
08-30	IL Department of Healthcare and Family Services	Failure to Establish Support Orders Within Required Timeframe	Noncompliance and significant deficiency
08-31	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness
08-32	IL Department of Healthcare and Family Services	Failure to Include Allocation Methodology in the PACAP	Noncompliance and significant deficiency
08-33	IL Department of Healthcare and Family Services	Inadequate Cash Management Procedures	Noncompliance and significant deficiency

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Finding No.	State Agency	Finding Title	Finding Type
08-34	IL Department of Healthcare and Family Services	Failure to Include Interest Calculation Methodology in the Treasury State Agreement	Noncompliance and significant deficiency
08-35	IL Department of Children and Family Services	Missing Documentation in Case Files	Material noncompliance and material weakness
08-36	IL Department of Children and Family Services	Failure to Ensure That Required Judicial Determinations Were Made	Material noncompliance and material weakness
08-37	IL Department of Children and Family Services	Failure to Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes	Material noncompliance and material weakness
08-38	IL Department of Children and Family Services	Missing Documentation in Adoption Assistance Eligibility Files	Material noncompliance and material weakness
08-39	IL Department of Children and Family Services	Inadequate and Untimely Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
08-40	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and material weakness
08-41	IL Department of Children and Family Services	Failure to Ensure That Adoption Assistance Recertifications Are Performed on a Timely Basis	Noncompliance and significant deficiency
08-42	IL Department on Aging	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
08-43	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Material noncompliance and material weakness
08-44	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency
08-45	IL Department of Public Health	Inadequate Control and Accountability for Vaccines	Scope limitation and material weakness
08-46	IL Department of Public Health	Failure to Monitor the Maintenance of Effort Requirement	Adverse and material weakness
08-47	IL Department of Public Health	Inadequate Process for Determining Client Eligibility	Adverse and material weakness
08-48	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
08-49	IL Department of Public Health	Inadequate On-Site Monitoring of Subrecipient	Noncompliance and material weakness

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Finding No.	State Agency	Finding Title	Finding Type
08-50	IL Department of Public Health	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and material weakness
08-51	IL Department of Public Health	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
08-52	IL Department of Public Health	Unallowable Costs Used to Meet HIV Matching Requirement	Noncompliance and significant deficiency
08-53	IL Department of Public Health	Failure to Investigate Provider Complaints within Required Timeframes	Noncompliance and significant deficiency
08-54	IL State Board of Education	Failure to Sanction Non-Comparable Local Education Agency (LEA)	Material noncompliance and material weakness
08-55	IL State Board of Education	Inadequate On-Site Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
08-56	IL State Board of Education	Inadequate On-Site Programmatic Monitoring of Subrecipients	Material noncompliance and material weakness
08-57	IL State Board of Education	Inadequate Monitoring of Maintenance of Effort Requirement	Noncompliance and material weakness
08-58	IL Community College Board	Failure to Perform On-Site Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
08-59	IL Community College Board	Inadequate Documentation of Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
08-60	IL Community College Board	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and material weakness
08-61	IL Student Assistance Commission	Untimely Deposits into the Federal Fund	Noncompliance and significant deficiency
08-62	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and significant deficiency
08-63	IL Student Assistance Commission	Inaccurate Guaranty Agency Annual Financial Reporting	Noncompliance and significant deficiency
08-64	IL Student Assistance Commission	Inadequate Process to Verify Unreported Loans	Noncompliance and significant deficiency
08-65	IL Department of Employment Security	Failure to Obtain Refusal to Work Certifications	Noncompliance and material weakness
08-66	IL Department of Employment Security	Failure to Issue Eligibility Determinations within Prescribed Timeframes	Noncompliance and material weakness

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Finding No.	State Agency	Finding Title	Finding Type
08-67	IL Department of Employment Security	Inaccurate Benefit Payment Calculations	Noncompliance and significant deficiency
08-68	IL Department of Employment Security	Incomplete Documentation in Client Eligibility Files	Noncompliance and significant deficiency
08-69	IL Department of Employment Security	Inadequate Documentation of Eligibility Reviews Performed by the Benefits Accuracy Measurement Unit	Noncompliance and Significant deficiency
08-70	IL Department of Employment Security	Inadequate Documentation of Policies and Procedures, Resolution of Exceptions, and Supervisory Review of the Claim Exception and Monitoring Reports	Significant deficiency
08-71	IL Department of Employment Security	Inadequate Procedures over Effort Reports	Noncompliance and significant deficiency
08-72	IL Department of Employment Security	Improper Calculation of Earmarking Requirement	Significant deficiency
08-73	IL Department of Employment Security	Inaccurate ATAA Special Report	Noncompliance and significant deficiency
08-74	IL Department of Employment Security	Inadequate Documentation of Controls over Information Systems	Significant deficiency
08-75	IL Department of Commerce and Economic Opportunity	Inaccurate Performance and Evaluation Report	Noncompliance and material weakness
08-76	IL Department of Commerce and Economic Opportunity	Failure to Properly Issue and Evaluate Training Waivers and Failure to Properly Calculate Job Search Allowance	Noncompliance and significant deficiency
08-77	IL Department of Commerce and Economic Opportunity	Inadequate Documentation of Supervisory Review and Untimely Communication of On-Site Monitoring Findings	Significant deficiency
08-78	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
08-79	IL Department of Transportation	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Noncompliance and significant deficiency
08-80	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
08-81	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and significant deficiency

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Finding No.	State Agency	Finding Title	Finding Type
08-82	IL Department of Transportation	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and significant deficiency
08-83	IL Department of Transportation	Inadequate Cash Management Procedures	Significant deficiency
08-84	IL Department of Transportation	Inadequate Controls over Information Systems	Significant deficiency
08-85	IL Emergency Management Agency	Failure to Deposit Funds in an Interest-bearing Account	Noncompliance and material weakness
08-86	IL Emergency Management Agency	Failure to Obtain Suspension and Debarment Certifications from Vendors	Noncompliance and material weakness
08-87	IL Emergency Management Agency	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and significant deficiency
08-88	IL Emergency Management Agency	Inaccurate Federal Award Information Provided to Subrecipients	Noncompliance and significant deficiency
08-89	IL Emergency Management Agency	Failure to Advance Only the Immediate Cash Needs to Subrecipients	Noncompliance and significant deficiency
08-90	IL State Police	Failure to Deposit Funds in an Interest-bearing Account	Noncompliance and significant deficiency
08-91	IL State Board of Elections	Inadequate Monitoring of Subrecipients	Noncompliance and material weakness
08-92	IL State Board of Elections	Failure to Obtain and Review Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
08-93	IL State Board of Elections	Failure to Meet HAVA Matching Requirement	Noncompliance and significant deficiency
08-94	IL Department of Central Management Services	Inadequate Process for Monitoring Internal Service Fund Balances	Noncompliance and material weakness
08-95	IL Department of Central Management Services	Inadequate Supporting Documentation for Payroll Costs	Noncompliance and material weakness
08-96	IL Department of Central Management Services	Unallowable Costs Recorded in Internal Service Funds	Noncompliance and material weakness
08-97	IL Department of Central Management Services	Inadequate Process for Billing Costs to Users	Noncompliance and material weakness

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 93.558 (\$537,011,000)
93.575/93.596 (\$206,438,000)
93.667 (\$127,372,000)

Award Numbers: G-0702ILTANF/G0802ILTANF (93.558)
(CFDA Number) G0701ILCCDF/G0801ILCCDF (93.575)
G-0601ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)

Questioned Costs: None

Finding 08-02 Inadequate Process for Monitoring Interagency Program Expenditures

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

Federal and state expenditures under the TANF, Child Care, and Title XX programs are comprised of programs operated by various state agencies. As the state agency responsible for administering these programs, IDHS has executed interagency agreements with each of the state agencies expending federal and/or state program funds. The interagency agreements require periodic reporting of a summary of the agency's "allowable" expenditures to IDHS for preparation of the financial reports required for each program. As the state agencies expending program funds do not determine under which program IDHS reports their expenditures, IDHS is responsible for establishing procedures to ensure the expenditures reported by the expending state agencies meet the applicable federal requirements.

During the year ended June 30, 2008, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF, Child Care, and Title XX programs as follows:

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Department of Children and Family Services (DCFS)	\$227,011,147	\$537,011,000
Federal TANF	Illinois Student Assistance Commission (ISAC)	\$50,608,987	\$537,011,000
Federal TANF	Illinois Department of Revenue (IDOR)	\$17,274,904	\$537,011,000
Federal TANF	Department of Healthcare and Family Services (DHFS)	\$2,455,850	\$537,011,000
TANF MOE	Department of Healthcare and Family Services (DHFS)	\$59,492,956	\$493,958,000

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Program	Expending State Agency	Expenditures Claimed	Total Expenditures
TANF MOE	Illinois State Board of Education (ISBE)	\$67,975,884	\$493,958,000
TANF MOE	Illinois Community College Board (ICCB)	\$4,778,762	\$493,958,000
Child Care MOE	Department of Children and Family Services (DCFS)	\$25,523,741	\$130,773,000
Title XX	Department of Children and Family Services (DCFS)	\$2,882,267	\$127,372,000

IDHS' procedures to monitor other State agencies expending program funds reported by IDHS include the following:

- Interagency agreements were reviewed and updated (where necessary) to ensure all state programs claimed under or used to meet the MOE requirement of one of IDHS' federal programs were subject to an interagency agreement.
- Program questionnaires were developed and distributed to each of the state agencies to assist in documenting the nature of the expenditures provided to IDHS and the internal controls established to ensure compliance with the applicable federal regulations.
- Quarterly certification reports were collected from each of the state agencies to support amounts reported in the federal reports required for each federal program.
- Expenditure details were obtained from each of the state agencies and were reconciled to the quarterly certifications.

However, during our testwork over the documentation of the monitoring procedures discussed above, we noted the following deficiencies:

- IDHS is not performing a detailed review of any costs claimed from expenditures reported by other State agencies.
- The interagency agreements with DHFS and DCFS are vague in nature and simply require the state agency to follow the applicable rules, regulations, and policies of the applicable federal program and provide all data, documents, reports, and information necessary for IDHS to manage the applicable federal programs. However, the specific federal regulations and requirements of the State Plan are not identified in the agreements. Additionally, the interagency agreement with DCFS does not cover expenditures claimed under Title XX.
- The questionnaires provided to IDHS by each of the state agencies did not include documentation of all areas applicable to the expenditures reported. Specifically, the questionnaire for DCFS did not discuss the controls or processes related to the Emergency Assistance Program claimed under the federal TANF program or the procedures in place for identifying adjustments included in the expenditure detail supporting amounts reported for each of the federal programs identified above. The questionnaire for ISBE indicated most of the compliance requirements were not applicable since the expenditures ISBE provides are used to meet the MOE requirement; however, several of the requirements including those pertaining to the allowability of costs are applicable and should have been documented. In addition, questionnaires were not on file for ICCB, IDOR, or ISAC as of the date of our testwork.

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In each of the past six years, we have identified several instances of noncompliance and unallowable costs claimed from expenditures reported by other State agencies, which is indicative that adequate internal control does not exist over the claiming of these expenditures and adequate monitoring of the other State agencies has not been performed. During the current fiscal year ended June 30, 2008, we identified the following instances of non-compliance in our testing of interagency expenditures which are reported as separate findings in this report for each of the respective agencies:

- Federal TANF expenditures provided by IDOR included amounts that did not qualify as allowable expenditures under the TANF regulations;
- TANF MOE expenditures provided by DHFS included state funded medical and energy assistance expenditures to beneficiaries who were not eligible under TANF MOE regulations;
- Expenditures provided by DCFS under all programs identified above included expenditures to subrecipients for which DCFS has not established adequate monitoring procedures. In addition, significant increases in the administrative costs for these programs could not be adequately explained by DHS or DCFS personnel during our testwork.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing these conditions with IDHS officials, they stated a continual process of reviewing controls over interagency expenditures was started in fiscal year 2006 and improvements are being made when needs are identified.

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program. (Finding Code 08-02, 07-09, 06-02, 05-14, 04-13, 03-15)

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. The Agency believes that our current cost controls meets the reasonableness standard in the A-102 Common Rule but IDHS will continue to try to improve our control system over interagency expenditures.

Auditors' Comment:

As discussed above, we do not believe IDHS' current controls over interagency expenditures are adequate.

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State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 93.558 (\$537,011,000)
93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: G-0702ILTANF/G0802ILTANF (93.558)
(CFDA Number) 05-0505IL5021/05-0605L5021/05-0605IL6101/05-0605IL5R21 (93.767)
05-0605IL5048/05-0505IL5048 (93.775/93.777)
05-0605IL5028/05-0505IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 08-03 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

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

Each of the State Plans for the TANF, SCHIP, and Medicaid programs require the State to perform eligibility redeterminations on an annual basis. These procedures typically involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our test work over eligibility, we noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF, SCHIP, and Medicaid programs. In evaluating the eligibility redetermination delinquency statistics, we noted the statistics for the SCHIP and Medicaid programs appear to have improved as a result of implementing an inadequate passive redetermination process as reported in finding 08-17. If the cases subject to the inadequate passive redetermination process were included in the analysis below, the number and percentage of overdue cases would be higher for the SCHIP and Medicaid programs. The monthly delinquency statistics by program for state fiscal year 2008 are as follows:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF			
July	1,261	31,139	4.05%
August	1,128	30,449	3.70%
September	1,064	29,439	3.61%
October	1,055	29,037	3.63%
November	1,206	28,426	4.24%

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Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF, cont'd			
December	1,216	28,436	4.28%
January	1,115	28,220	3.95%
February	1,113	27,656	4.02%
March	826	27,292	3.03%
April	953	27,043	3.52%
May	929	27,109	3.43%
June	972	26,926	3.61%
SCHIP			
July	13,393	595,273	2.25%
August	13,991	600,145	2.33%
September	14,561	605,320	2.41%
October	15,058	611,108	2.46%
November	14,956	615,421	2.43%
December	15,652	620,705	2.52%
January	16,161	623,363	2.59%
February	14,740	626,358	2.35%
March	15,631	629,627	2.48%
April	13,455	631,943	2.13%
May	13,020	637,442	2.04%
June	12,012	642,603	1.87%
Medicaid			
July	15,489	416,810	3.72%
August	15,814	417,875	3.78%
September	16,361	418,788	3.91%
October	16,498	420,049	3.93%
November	16,275	420,615	3.87%
December	17,832	422,205	4.22%
January	18,657	422,645	4.41%
February	17,854	422,369	4.23%
March	18,844	422,503	4.46%
April	17,328	422,547	4.10%
May	17,495	423,555	4.13%
June	16,301	424,934	3.84%

In addition, during our test work of 50 TANF, 60 SCHIP, and 125 Medicaid eligibility files selected for testwork, we noted redeterminations were not completed within required time frames for one TANF, one SCHIP, and two Medicaid cases tested. Delays in performing redeterminations ranged from one to nine months after the required timeframe.

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Beneficiary payments selected in our sample totaled \$14,655, \$14,153, and \$149,498 for the TANF, SCHIP, and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the TANF, SCHIP, and Medicaid Cluster programs totaled \$66,909,000, \$337,976,000, and \$6,313,321,000, respectively, during the year ended June 30, 2008.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2008, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid, SCHIP, and TANF programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis.

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

In discussing these conditions with IDHS officials, they stated that this is a repeat finding from past audit periods. IDHS has reviewed and facilitated change in the State Plan to reflect the Federal expectations regarding redeterminations.

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

Recommendation:

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

IDHS Response:

Disagree. The Department disagrees with the recommendation. The Department is in compliance with federal regulations which require states to make every effort to complete redeterminations timely and accurately. Federal guidelines remain silent as to a percentage of timely redeterminations required. We continue to make redetermination currency a priority. In fiscal year 2008, the Illinois Department of Human Services (IDHS) was over 96% current on case redeterminations. Currently, in fiscal year 2009, IDHS exhibits a currency rate of 97%. The finding language states that our redetermination statistics “appear to have improved as a result of implementing an inadequate passive redetermination process.” The Department maintains that the passive redetermination policy has been approved by both agencies that have responsibility in administering the Medicaid program.

Auditors' Comment:

As stated above, federal regulations require eligibility redeterminations to be completed in accordance with the State Plan for each of the federal programs identified in the finding. The State Plans in effect for the year under audit require eligibility redeterminations to be completed for **all** beneficiaries on an annual basis. As of the date of our report, the State Plans for these programs have not been amended to permit annual eligibility redeterminations to be completed for less than all (100%) of program beneficiaries.

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As stated in finding 08-17, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the “All Kids” program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs.

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

CFDA # and Program Expenditures: 10.551/10.561 (\$1,779,116,000)
93.558 (\$537,011,000)
93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 2IL400098/2IL420120 (10.551/10.561)
(CFDA Number) G-0702ILTANF/G0802ILTANF (93.558)
05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 08-04 Failure to Properly Maintain and Control Case File Records

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

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

During our testwork, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically, in our review of case files at five separate local offices, we noted the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. We also noted case files were generally available to all DHS personnel and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

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Additionally, during our testwork over 235 case files selected in our testwork relative to the TANF, SCHIP, and Medicaid programs, we noted several delays in receiving case files due to the fact that case files had been transferred between local offices as the result of clients moving between service areas.

Payments made on the behalf of beneficiaries of the Food Stamps, TANF, SCHIP, and Medicaid programs were approximately \$1,674,038,000, \$66,909,000, and \$337,976,000, and \$6,313,321,000, respectively, during the year ended June 30, 2008.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2008, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid and SCHIP programs.

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

In discussing these conditions with IDHS officials, they stated current fiscal constraints and staffing allocations prevent DHS Division of Human Capital Development from having dedicated file clerks in each Family Community Resource Center (FCRC), which would allow us to implement a more stringent internal control procedure. IDHS continues to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record..

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

Recommendation:

We recommend IDHS review its current process for maintaining and controlling beneficiary case records and consider the changes necessary to ensure case file documentation is maintained accordance with federal regulations and the State Plans for each affected program.

IDHS Response:

The Department accepts the recommendation. It should be noted that of the 295 cases selected by the auditors, all were located and reviewed. Given our current caseload sizes, fiscal constraints, and staffing limitations, IDHS continues to place high priority on proper case file maintenance and filing, as evidenced by the 100% case record retrieval rate. IDHS continues to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record.

Auditors' Comment:

As stated above, IDHS does not have appropriate controls over case files. The fact that case files selected for testing were ultimately found does not change the emphasis of the finding that 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. Our audit noted that areas in which case files are maintained were disorganized and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families
CFDA # and Program Expenditures: 93.558 (\$537,011,000)
Award Numbers: G-0702ILTANF/G0802ILTANF
Questioned Costs: Cannot be determined

Finding 08-05 *Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits*

IDHS does not have adequate procedures 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.

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 TANF State Plan. IDHS has designed its standard application for benefits to request information from applicants relative to each of the eligibility criteria.

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

Payments made on behalf beneficiaries of the TANF program totaled \$66,909,000 during the year ended June 30, 2008.

In accordance with 42 USC 602(a)(1)(B)(iii) and the OMB Circular A-133 Compliance Supplement, dated March 2008, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the TANF program. 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 under Illinois, or comparable federal law, are ineligible to receive TANF. Additionally, IDHS Policy No. 03-23-02 requires crossmatches to be completed to determine whether applicants have been convicted Class 1 or Class X drug felonies. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include performing crossmatches of data with other state agencies to ensure only eligible beneficiaries receive benefits.

In discussing these conditions with IDHS officials, they stated this is a repeat finding due to inconsistencies in IDHS' policy and procedures.

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Failure to ensure TANF recipients receiving benefits are not convicted of Class 1 and Class X felonies results in federal funds being awarded to ineligible beneficiaries which are unallowable costs. (Finding Code 08-05, 07-13, 06-04)

Recommendation:

We recommend IDHS 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.

IDHS Response:

The Department accepts the recommendation. This is a repeat finding from fiscal year 2007. In the last two Single Audits, there were no TANF recipients identified by the auditors to have been convicted of a Class 1 or Class X felony. The Department has reviewed our process of verifying the presence of a class 1 or X felony, and we are in the final stages of making our policy more consistent with our eligibility determination process.

Auditors' Comment:

The Department's planned corrective action is to change their current policy to eliminate the crossmatch which does not adequately address the condition found. A crossmatch or another verification mechanism should be implemented to ensure beneficiaries that have been convicted of a Class 1 or Class X felony do not receive TANF benefits.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Agriculture (USDA)
Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA # and Program Expenditures: 10.557 (\$206,089,000)
Award Numbers: 2007IW100642/2007IW100342/2008IW100642/2008IW100342
Questioned Costs: Cannot be determined

Finding 08-06 *Failure to Provide Adequate Food Instrument Disposition Documentation*

IDHS could not provide adequate documentation that food instruments issued under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program were properly validated and reconciled by its third party service organization in accordance with program regulations for the entire state fiscal year.

IDHS issues food instruments to beneficiaries of the WIC program which are used to purchase supplemental food (typically infant formula) from vendors approved by the State. In order to receive reimbursement from the State, vendors deposit food instruments received from WIC beneficiaries into their bank accounts and the food instruments are then routed to IDHS' service organization for processing and payment. The service organization is responsible for validating each food instrument presented for payment by comparing the instrument to information provided by IDHS and for paying each vendor submitting food instruments. The service organization provides IDHS with a series of monthly reports which IDHS uses to complete food instrument reconciliations and vendor monitoring procedures required by federal regulations.

In order to ensure the service organization is processing food instruments properly, IDHS requires the service organization to have an annual independent examination of the design and operating effectiveness of the internal controls in place relative to food instrument processing and reporting. During our audit, we noted the auditors' reports on controls placed in operation and tests of operating effectiveness for the service organization obtained by IDHS did not include the State's entire fiscal year. Specifically, we noted the period from September 1, 2007 through December 31, 2007 was not covered by the auditors' reports. Accordingly, we were unable to obtain sufficient and appropriate audit evidence that food instruments were properly validated and reconciled in accordance with federal regulations during the year ended June 30, 2008.

The A-102 Common rule requires non-Federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing and documenting procedures to monitor service organizations.

In discussing these conditions with IDHS officials, they stated the Department's Contractor for the WIC food instrument payment processing changed banks mid-year. As a result, the SAS70 report received from the WIC food payment contractor only covered eight months of the year. The WIC food payment contractor was unable to provide the SAS 70 report for the full year.

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For the Year Ended June 30, 2008

Failure to ensure food instruments are properly validated and reconciled may result in the improper payment of food instruments which are unallowable costs. (Finding Code 08-06)

Recommendation:

We recommend IDHS properly monitor its service organizations and obtain a SAS 70 report covering the entire year.

IDHS Response:

The Department partially agrees with the recommendation. While the SAS 70 report only covered eight month of the year, the internal reviews of transaction by IDHS were in place for the full year. The Department has notified the WIC food payment processing contractor that the SAS 70 report has to be for twelve months. The Department's Contractor for WIC food payment processing changed banks mid year. As a result, the SAS 70 report received from the WIC food payment contractor only covered eight months of the year. The WIC food payment contractor was unable to provide the SAS 70 report for the full year.

Auditors' Comment:

As stated above, the SAS 70 report did not cover the entire audit period. As a result, we were unable to obtain sufficient and appropriate audit evidence that food instruments were properly validated and reconciled in accordance with federal regulations during the year ended June 30, 2008.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster
CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$6,607,985,000)
Award Numbers: 05-0705IL5048/05-0805IL5048 (93.775/93.777)
(CFDA Number) 05-0705IL5028/05-0805IL5028 (93.778)
Questioned Costs: Cannot be determined

Finding 08-07 *Failure to Obtain Documentation of Assignment of Medical Support Rights*

IDHS did not obtain written documentation from beneficiaries of the Medicaid Cluster program documenting they had assigned their rights to medical support payments to the State.

As a condition of receiving Medicaid benefits, beneficiaries are required to assign their rights to collections of medical support payments to the State for the time periods the individuals are receiving Medicaid benefits. IDHS has designed its standard application for benefits to include an acknowledgement that the applicant understands child and medical support payments collected on his or her behalf may be retained by the State as long as Medicaid Cluster program benefits are being received.

During our testwork over the Medicaid programs, we selected eligibility files for 125 Medicaid beneficiaries to review for compliance with eligibility requirements and for the allowability of the related benefits. Specifically, we noted the case file for one Medicaid beneficiary selected for testwork did not contain a signed acknowledgement of assigning child or medical support payments to the State. Although the standard application used by these beneficiaries included the assignment of rights clause, the assignment of rights clause section of the application includes a separate signature line for the acknowledgement which was not signed by the beneficiary. The medical assistance payment made on behalf of this beneficiary selected for our testwork was \$180. Medical assistance payments made on behalf of the Medicaid beneficiary selected for our testwork during the year ended June 30, 2008 were \$55,969.

Beneficiary payments selected in our sample totaled \$162,090. Payments made on behalf beneficiaries of the Medicaid Cluster program totaled \$6,313,321,000 during the year ended June 30, 2008.

According to 42 CFR 433.145, the State must require individuals receiving Medicaid benefits to assign their rights and the rights of their legal dependents receiving benefits to medical support and to payment for medical care from any third party to the State. Additionally, the A-102 Common rule requires non-Federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure assignment of rights statements are on file for all program beneficiaries.

In discussing these conditions with IDHS officials, they stated the cause of this finding is due to human filing error, and the Department was unable to obtain proper documentation due to the client's death.

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For the Year Ended June 30, 2008

Failure to obtain documentation that Medicaid recipients have assigned their rights to medical support payments from third parties to the State may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 08-07, 07-20, 06-17, 05-24)

Recommendation:

We recommend IDHS obtain written documentation of the assignment of medical support rights from all Medicaid beneficiaries.

IDHS Response:

The Department accepts the recommendation. IDHS has communicated to staff the importance of obtaining proper assignment of rights signature documentation.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

CFDA # and Program Expenditures: 93.558 (\$537,011,000)
93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: G-0702ILTANF/G0802ILTANF (93.558)
(CFDA Number) 05-0505IL5021/05-0605L5021/05-0605IL6101/05-0605IL5R21 (93.767)
05-0605IL5048/05-0505IL5048 (93.775/93.777)
05-0605IL5028/05-0505IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 08-08 *Missing Documentation in Beneficiary Eligibility Files*

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

During our test work of 50 TANF, 60 SCHIP, and 125 Medicaid beneficiary payments, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions during our testwork:

- In two SCHIP case files and one Medicaid case file, the initial application for benefits signed by the individual indicated the beneficiary had verifiable income; however, subsequent eligibility redeterminations did not include procedures to verify changes in income. IDHS could not locate case file documentation considered in determining whether these amounts had changed subsequent to the initial eligibility determination. The medical payments made on behalf of these two beneficiaries which were selected for our testwork were \$477 and \$64 for the SCHIP and Medicaid Cluster programs, respectively. Medical payments made on behalf of these two beneficiaries during the year ended June 30, 2008 were \$14,214 and \$2,152 for the SCHIP and Medicaid programs, respectively.
- In two Medicaid case files, IDHS could not locate the application signed by the beneficiary in the case file. Medical assistance payments made on behalf of these beneficiaries which were selected for our testwork were \$160. Medical assistance payments made on behalf of these two beneficiaries during the year ended June 30, 2008 were \$1,965.
- In one SCHIP case file, IDHS could not locate adequate documentation supporting that the required State Online Query (SOLQ) and Division of Child Support Enforcement (DCSE) cross match procedures were performed. Medical assistance payments made on behalf of this beneficiary which was selected for our testwork was \$63. Medical assistance payments made on behalf of this beneficiary during the year ended June 30, 2008 was \$12,380.

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In each of the case files missing documentation, each of the eligibility criteria was verified through additional supporting documentation in the client's paper and electronic case files. Therefore all information necessary to establish and support the client's eligibility for the period was available; however, the respective application and/or source documentation related to the redetermination/income verification procedures performed including evidence of case worker review and approval could not be located.

Beneficiary payments selected in our samples totaled \$14,655, \$14,153, and \$149,498 for the TANF, SCHIP, and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the TANF, SCHIP, and Medicaid Cluster programs totaled \$66,909,000, \$337,976,000, \$6,313,321,000, respectively, during the year ended June 30, 2008.

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

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2008, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid and SCHIP programs.

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

In discussing these conditions with IDHS officials, they stated this is a repeat finding caused by human filing errors.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 08-08, 07-19, 06-16, 05-30, 04-18, 03-20, 02-26, 01-15)

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. The Department will continue to ensure that staff understands the importance of proper and accurate filing process. Proper documentation of eligibility will continue to be integral piece of training curricula. Cases are reviewed regularly at various staffing levels for proper documentation.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster
CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$6,607,985,000)
Award Numbers: 05-0605IL5048/05-0505IL5048 (93.775/93.777)
(CFDA Number) 05-0605IL5028/05-0505IL5028 (93.778)
Questioned Costs: \$2,257

Finding 08-09 *Failure to Determine Eligibility in Accordance with Program Regulations*

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

During our testwork of Medicaid Cluster program beneficiary payments, we selected a sample of 125 Medicaid eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. In our review of a case file for one of the Medicaid beneficiaries selected for our testwork, we noted IDHS did not complete the eligibility determination within required timeframes and improperly made medical assistance payments on behalf of an ineligible beneficiary. Specifically, the case identified was granted temporary medical benefits on November 26, 2007 until a disability assessment could be performed by IDHS' Client Assessment Unit. During our review of the case file for this beneficiary, we noted a final determination of eligibility was not made until October 29, 2008 at which time the beneficiary was determined ineligible for medical benefits. The medical assistance payment made on behalf of this beneficiary selected in our testwork was \$311. Medical assistance payments made on the behalf this beneficiary during the period of ineligibility were \$2,257.

Beneficiary payments selected in our sample totaled \$162,090 for the Medicaid Cluster program. Payments made on behalf beneficiaries of the Medicaid Cluster programs totaled \$6,313,321,000 during the year ended June 30, 2008.

In accordance with 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2008, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan for the Medicaid program. According to 42 CFR 435.911, eligibility determinations for applicants who apply for Medicaid on the basis of a disability must be completed within 90 days.

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

In discussing these conditions with IDHS officials, they stated the cause of this finding is due to agency error.

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Failure to properly perform eligibility determinations may result in expenditures being made on the behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 08-09, 07-12)

Recommendation:

We recommend IDHS review its current process for performing eligibility determinations and consider the changes necessary to ensure all eligibility determinations are performed in accordance with federal regulations and the Medicaid State Plan.

IDHS Response:

The Department accepts the recommendation. We acknowledge that one case had a disability determination that fell outside of required timeframes. The client in question made an application for cash under the disability program through a mail in application on November 26, 2007, and an interview was scheduled for December 3, 2007, which the client did attend. He was then receiving medical assistance under his mother's All Kids case. His application was accepted as mandated, and the application process was initiated to determine disability status, which can be a lengthy process. The Department of Human Services, Client Assessment Unit (CAU) received the case on March 18, 2008, for review and returned to the local office June 5, 2008, for additional medical information. On October 30, 2008, the CAU received the case back with additional medical information and made a decision and returned the case to the local office the same day. Due to processing delays one client's disability determination did fall outside of required timeframes. The Department's CAU disposition procedures are adequate, but we will review workflow processes to identify any areas that could be made more efficient.

Auditors' Comment

The case specific information discussed in IDHS' response does not change the fact that the eligibility determination was not properly performed and unallowable costs were reimbursed by the Medicaid Cluster program.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Education (USDE)
Program Name: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA # and Program Expenditures: 84.126 (\$87,562,000)
Award Numbers: H126A070018/H126A080018
Questioned Costs: \$319

Finding 08-10 Unallowable Expenditures Charged to the Vocational Rehabilitation Program

IDHS made unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation) program.

The Vocational Rehabilitation program is designed to provide services to certain individuals who have physical or mental impairments that impede them from attaining employment. Services provided under the Vocational Rehabilitation program vary and are designed specifically for each beneficiary based upon the facts and circumstances faced by the beneficiary. Most services are considered allowable if they are required to assist the beneficiary to attain his/her employment goal and are documented in the beneficiary's Individualized Plan for Employment (IPE).

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

- In one case, payments were made for services not included in the beneficiary's IPE. Upon further review, we noted the services were included on an IPE which was approved subsequent to the date these services had been provided. Payments made on the behalf of this beneficiary for services not included in his IPE were \$18. The payment selected in our sample for this beneficiary was \$18.
- In one case file, IDHS was unable to provide documentation supporting that the beneficiary's IPE had been approved. Payments made on the behalf of this beneficiary during the year ended June 30, 2008 were \$6,614. The payment selected in our sample for this beneficiary was \$301.

Beneficiary payments selected in our sample totaled \$39,602. Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$14,269,000 during the year ended June 30, 2008.

In accordance with 29 USC 722(b)(2) and (3), an IPE must be signed by the eligible individual (or his/her representative) and a qualified vocational rehabilitation counselor and must include (1) a description of the specific employment outcome that is chosen by the individual and is consistent with the individual's unique strengths, resources, priorities, concerns, abilities, capabilities, career interests, and informed choice, (2) a description of the specific rehabilitation services needed to achieve the employment outcome, and (3) timelines for the achievement of employment outcomes. OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must be: (1) reasonable and necessary; (2)

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

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure only allowable beneficiary expenditures are charged to the program.

In discussing these conditions with IDHS officials, they stated of 50 cases reviewed, the auditors noted that in one case, an oversight occurred resulting in an expenditure outside of the Individualized Plan for Employment (IPE) date, while in another the IPE was not printed, signed and filed. Electronic documentation of the plan exists.

Failure to properly determine and document the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 08-10, 07-15, 06-07, 05-21)

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. Of 50 cases reviewed by the auditors, only two cases (4%) were identified under this category. The Department of Human Services, Division of Rehabilitation Services (DRS) will continue to work to make sure every case has all of the documentation required signed and included in the case file and that IPE's are current at the time of an expenditure.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Education (USDE)
Program Name: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA # and Program Expenditures: 84.126 (\$87,562,000)
Award Numbers: H126A070018/H126A080018
Questioned Costs: None

Finding 08-11 *Failure to Determine Eligibility In Accordance with Program Regulations*

IDHS did not determine the eligibility of beneficiaries under the Rehabilitation Services – Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) in accordance with federal regulations.

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

- In eight eligibility files tested, IDHS did not determine eligibility within the required 60 day timeframe. No payments were made during year ended June 30, 2008 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary's disability.
- In two case files, IDHS could not provide the certificate of eligibility signed by the case worker and beneficiary; however, unsigned electronic certificates were provided from the case management systems. Payments made on the behalf of these beneficiaries during the year ended June 30, 2008 were \$13,939. The payments selected in our sample for these beneficiaries were \$2,059.

Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$14,269,000 during the year ended June 30, 2008.

In accordance with 34 CFR 361.41(b)(1), IDHS is required to determine client eligibility within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for benefits unless one of the criteria for an extension has been met.

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

In discussing these conditions with IDHS officials, they stated determining eligibility took longer than the 60 days in rule and the need and customer agreement for an extension was not included in a case file.

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Failure to properly perform beneficiary eligibility determinations and complete such determinations within the required timeframes may result in expenditures being made on the behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 08-11, 07-16, 06-11, 05-22, 04-25)

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. The Department of Human Services, Division of Rehabilitation Services (DRS) continues to work to make eligibility determinations as quickly and accurately as possible, and will strive to document customer's agreement to an extension when the determination cannot be made within the prescribed timeframes.

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State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 10.551/10.561 (\$1,779,116,000)
10.557 (\$206,089,000)
84.126 (\$87,562,000)
93.558 (\$537,011,000)
93.575/93.596 (\$206,438,000)
93.667 (\$127,372,000)
93.959 (\$78,421,000)
96.001 (\$66,638,000)

Award Numbers: 2IL420120/2IL400098 (10.551/10.561)
(CFDA Number) 2007IW100642/2007IW100342/2008IW100642/2008IW100342 (10.557)
H126A070018/H126A080018 (84.126)
G-0702ILTANF/G0802ILTANF (93.558)
G0701ILCCDF/G0801ILCCDF (93.575)
G-0601ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)
07B1ILSAPT/08B1ILSAPT (93.959)
0604ILD100/0704ILD100/0804ILD100 (96.001)

Questioned Costs: Cannot be determined

Finding 08-12 *Failure to Amend the Public Assistance Cost Allocation Plan*

IDHS has not amended the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately include all cost centers assigned to its administrative offices.

IDHS administers several federal and state programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, IDHS has submitted a PACAP to the USDHHS describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by IDHS. IDHS has developed the

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methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs during the quarter ended September 30, 2007, we noted three cost centers were not included in the PACAP. Accordingly, the methods used to allocate these cost centers were not approved by USDHHS. These cost centers and the costs allocated during the year ended June 30, 2008 were as follows:

Cost Center	Cost Center Expenditures
Office of Legal Services (AE070)	\$3,973,386
Chief Operation Office (MT701)	14,885,776
Chief Financial Office (MS440)	6,073,143

As these cost centers are administrative in nature, they were allocated using the Departmental Indirect Cost Allocation Plan methodology which are allocated to all federal and state program administered by IDHS. Total costs allocated through the PACAP for the year ended June 30, 2008 were \$1,216,679,845.

According to 45 CFR 95.509(a)(4), a State shall promptly amend the cost allocation plan and submit the amended plan to the Division of Cost Allocation if other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all allocation methodologies used are appropriately defined in the PACAP.

In discussing these conditions with IDHS officials, they stated PACAP amendments and necessary changes to cost allocation methodologies were not timely prepared to accurately reflect programmatic activities.

Failure to amend PACAP cost allocation methodologies for changes in program administration may result in disallowances of costs. (Finding Code 08-12)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare PACAP amendments and implement changes necessary to ensure cost allocation methodologies accurately reflect programmatic activities.

IDHS Response:

The Department accepts the recommendation. The Department of Human Services, Office of Fiscal Services has implemented necessary PACAP amendments to include cost centers AE070, MS440 and MT70 and to ensure cost allocation methodologies accurately reflect programmatic activities.

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State Agency: Illinois Department of Human Services (IDHS)

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

Program Name: Rehabilitation Services – Vocational Rehabilitation Grants to States
Block Grants for Prevention and Treatment of Substance Abuse
Social Security Disability Insurance

CFDA # and Program Expenditures: 84.126 (\$87,562,000)
93.959 (\$78,421,000)
96.001 (\$66,638,000)

Award Numbers: H126A070018/H126A080018 (84.126)
(CFDA Number) 07B1ILSAPT/08B1ILSAPT (93.959)
0604ILD100/0704ILD100/0804ILD100 (96.001)

Questioned Costs: \$58,624

Finding 08-13 *Inaccurate Interest Liability Calculations*

IDHS did not properly calculate its interest liabilities for the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Block Grants for Prevention and Treatment of Substance Abuse (SAPT), and Social Security Disability Insurance (SSDI) programs.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the US Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. Certain approved funding techniques utilized by the State require the use of a clearance pattern which identifies the average number of days federal funds are held by the State. The clearance pattern is used to calculate the State’s interest liability for the program.

The TSA requires IDHS to determine the total time federal funds are held by measuring two separate time periods: the time federal funds are held in a State account prior to being disbursed (preissuance time) and the time federal funds are held by the State between the issuance and the clearance of warrants (clearance time). The preissuance time is to be measured annually by selecting a statistical sample of warrants and calculating the weighted average number of days between the date federal funds were deposited and the date the warrant was issued. The clearance time is to be calculated and certified at least every five years and is included in the TSA. The sum of these time periods is used to calculate the State’s interest liability.

During our testwork over the June 30, 2007 interest calculation (submitted in fiscal year 2008), we noted IDHS improperly used one day as the clearance time used to calculate the administrative interest liabilities for the Vocational Rehabilitation, SAPT, and SSDI programs as opposed to the six, nine, and six days, respectively, prescribed in the TSA. As a result, the interest liabilities calculated by IDHS were understated by \$31,202, \$2,397, and \$25,025 for the Vocational Rehabilitation, SAPT, and SSDI programs, respectively.

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According to the Treasury-State Agreement signed between the US Department of Treasury and the State of Illinois, IDHS is required to calculate an interest liability on federal funds for the Vocational Rehabilitation, SAPT, and SSDI programs based on the annual program expenditures times the average equivalent yield of the 13-week Treasury bills auctioned during the year times the sum of the preissuance time and the clearance time. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the interest liability calculation is performed in accordance with the TSA.

In discussing these conditions with IDHS personnel, they stated the Department disagrees with the finding. The Agency is calculating the interest liability using the proper methodology. A calculation of the clearance time is done annually and is used in the interest calculation.

Failure to calculate the interest liability in accordance with the TSA may result in an underpayment of an interest liability to the federal government. (Finding Code 08-13, 07-22, 06-14)

Recommendation:

We recommend IDHS recalculate the interest liability for the year ended June 30, 2007 using the methodology stated in the TSA. A review of the interest liability calculation should be performed by an independent person that is knowledgeable of the TSA requirements.

IDHS Response:

The Department disagrees with this finding. The Agency is calculating the interest liability using the proper methodology. A calculation of the clearance time is done annually and is used in the interest calculation. The fiscal year 2007 TSA did not contain the correct information related to the number of days in the clearance time. The agency has calculated new clearance times and the final version of the amended fiscal year 2008 TSA has these new clearance times. Also, the interest calculation and the supporting detail are sent to an individual in the Governor's Office of Management and Budget, who is familiar with the TSA for review.

Auditors' Comment:

The TSA requires interest to be calculated based upon the clearance times specified in Exhibit II of the TSA. IDHS officials stated that the clearance patterns included in the TSA are inaccurate and that clearance patterns used in the interest calculations more accurately reflect clearance time. To the extent the TSA contains inaccurate clearance patterns, IDHS should work with the Governor's Office of Management and Budget to amend the TSA to include the corrected clearance patterns, rather than disregard the agreement's requirements.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 10.557 (\$206,089,000)
84.126 (\$87,562,000)
93.558 (\$537,011,000)
93.575/93.596 (\$206,438,000)
93.667 (\$127,372,000)
93.959 (\$78,421,000)

Award Numbers: 2007IW100642/2007IW100342/2008IW100642/2008IW100342 (10.557)
(CFDA Number) H126A070018/H126A080018 (84.126)
G-0702ILTANF/G0802ILTANF (93.558)
G0701ILCCDF/G0801ILCCDF (93.575)
G-0601ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)
07B1ILSAPT/08B1ILSAPT (93.959)

Questioned Costs: None

Finding 08-14 *Untimely Review of OMB Circular A-133 Audit Reports*

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

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

We selected a total sample of 117 subrecipient monitoring files to review from the above programs. During our review of the subrecipient monitoring files, we noted that for 42 subrecipient files IDHS had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by IDHS. These reviews were completed as follows:

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Desk Review Period	Number of Subrecipients
61-90 days after receipt	22
91-120 days after receipt	8
121-150 days after receipt	4
151-180 days after receipt	3
180 + days after receipt	5

In addition, we noted seventeen reports for which reviews were not completed as of the date our testwork. Each of these reports had been received in excess of 60 days prior to our testwork. Of the five subrecipients for which desk reviews were not completed within six months of receipt, IDHS was required to issue management decisions and did so within the required six month timeframe.

IDHS' subrecipient expenditures under the federal programs for the year ended June 30, 2008 were as follows:

Program	Total Fiscal Year 2008 Subrecipient Expenditures	Total Fiscal Year 2008 Program Expenditures	%
WIC	\$194,651,000	\$206,089,000	94.4%
Vocational Rehabilitation	\$20,359,000	\$87,562,000	23.3%
TANF	\$238,429,000	\$537,011,000	44.4%
Child Care	\$200,652,000	\$206,438,000	97.2%
Title XX	\$35,035,000	\$127,372,000	27.5%
SAPT	\$66,326,000	\$78,421,000	84.6%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Effective internal controls require monitoring procedures to be performed on a timely basis.

In discussing the desk review process with IDHS officials, they stated insufficient staffing resources due to concentration of agencies with June 30 fiscal year ends filing reports during certain months of the year.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 08-14, 07-23, 06-13, 05-27)

Recommendation:

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

IDHS Response:

The Department accepts the recommendation. The Office of Contract Administration has achieved a 70 day review period for 2008 reports submitted as of January 31. A new position was assigned to the unit and the Office of Contract Administration implemented priority reviews for reports with findings. Reviews are now significantly timelier, and average time has significantly decreased. If staffing resources are maintained at the level provided during calendar 2008, the Department of Human Services, Office of Contract Administration (OCA) will achieve and maintain the 60 days goal for this period. It should be noted that the OMB Circular A133.400(d) (5) clearly states under pass-through entity responsibilities that decision on audit findings be issued to a management within six months after receipt of the sub recipient's audit report and ensure that the sub recipient takes appropriate and timely corrective action. There is no timeframe required for review prescribed in the regulations; however the auditors have interpreted a reasonable timeframe to be 60 days.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)

Program Name: Food Stamp Cluster

CFDA # and Program Expenditures: 10.551/10.561 (\$1,779,116,000)

Award Numbers: 2IL420120/2IL400098

Questioned Costs: None

Finding 08-15 *Inadequate Monitoring of Food Stamp Service Organization*

IDHS did not adequately monitor a service organization of the Food Stamp Cluster.

IDHS issues food stamp benefits to beneficiaries of the Food Stamp program using electronic benefit transfer (EBT) cards which are used to purchase food from retail grocery stores. The State has contracted with a third party servicer to settle food stamp transactions and pay retailers who have accepted EBT cards as payment for beneficiary food purchases. Among other things, the third party servicer is responsible for drawing cash from the U.S. Treasury which is used to reimburse retailers. The State is responsible for reconciling the payments made to retailers by its third party servicer with the amounts drawn from the State's EBT account with the U.S. Treasury on a monthly basis.

In order to ensure the service organization is properly performing its contracted duties relative to the food stamp EBT card settlement process, IDHS requires the service organization to have an annual independent examination of the design and operating effectiveness of the internal controls in place (SAS 70 report). During our audit, we noted the auditors' report on controls placed in operation and tests of operating effectiveness for the EBT service organization did not cover the State's entire fiscal year as required by federal regulations. Specifically, we noted the SAS 70 report did not cover the period from July 1, 2007 to August 31, 2007.

According to 7 CFR 274.12(j)(5), States are required to obtain an independent examination of procedures related to the issuance, redemption, and settlement of Food Stamps benefits performed on their behalf by service organizations. Among other things, these examinations are required to be performed at least annually and cover the entire period since the previous examination period.

Additionally, the A-102 Common rule requires non-Federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing and documenting procedures to ensure service organization reports meet federal requirements.

In discussing these conditions with IDHS officials, they stated federal regulations require the SAS70 audit of the EBT Contractor's system annually. The time period for the audit in fiscal year 2008 would have been July 1, 2007 – June 30, 2008, but Northrop Grumman Information Technology (NGIT) moved their Data Center in August 2007, so their facility was not available to audit for the two month period of July and August 2007. The SAS70 audit time frame was defined as September 1, 2007 – June 30, 2008.

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For the Year Ended June 30, 2008

Failure to ensure service organizations obtain annual reports on controls placed in operation and tests of their operating effectiveness covering the entire year results in noncompliance. (Finding Code 08-15)

Recommendation:

We recommend IDHS review its procedures for monitoring its service organizations and implement any changes necessary to ensure service organization examinations are performed in accordance with the applicable regulations.

IDHS Response:

The Department disagrees with the recommendation. Procedures are in place to monitor service organizations and examinations are performed in accordance with regulations. Prior to conducting the fiscal year 2008 SAS70 audit, the timeframe exception was agreed upon by the Illinois Department of Human Services (IDHS), Northrop Grumman Information Technology (NGIT), and USDA Food and Nutrition Services (FNS). FNS accepted SAS70 audit reports for Illinois, Maine, Arkansas and Iowa, all affected by NGIT's Data Center move, for the 10-month timeframe, and this was not an issue at the time. FNS did not instruct the states that they needed waivers. This was not the first time Illinois had a shorter than one year timeframe for the annual SAS70 audit. In fiscal year 2004, the year that Illinois converted to Link II (new contract), the SAS70 audit timeframe was October 1, 2003 – June 30, 2004 because the "old" environment and processing for the period July 1, 2003 – Sept. 30, 2003 no longer existed. The NGIT Data Center move was a unique event that will not occur again for the remainder of the contract. The timeframe for next year's SAS70 will be for 12 months.

Auditors' Comment:

As stated above, 7 CFR 274.12(j)(5) requires States to have an annual independent examination of procedures related to the issuance, redemption, and settlement of Food Stamps benefits performed by its third party servicers which covers the entire period since the previous examination period. The SAS 70 provided in our audit did not cover the period from July 1, 2007 to August 31, 2007. IDHS stated that the time frame exception was agreed to by several parties; however, a formal waiver was not requested from or granted by FNS.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Revenue (IDOR)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families
CFDA # and Program Expenditures: 93.558 (\$537,011,000)
Award Numbers: G-0701ILTANF/G-0801ILTANF
Questioned Costs: \$236

Finding 08-16 *Inadequate Process for Determining the Allowability of Earned Income Credits*

IDOR has not established adequate procedures to determine whether earned income tax credits claimed under the Temporary Assistance for Needy Families (TANF) program meet the federal allowability criteria.

The State of Illinois, through IDOR, has established an earned income tax credit program to provide a tax refund to low income families residing in Illinois. Certain amounts refunded to taxpayers under this program are claimed by the Illinois Department of Human Services (IDHS) under the TANF program. To be allowable for claiming under TANF, the earned income tax credit must be determined in accordance with the State's earned income tax credit regulations and must be disbursed to the taxpayer through a refund. IDHS and IDOR have executed an interagency agreement which requires IDOR to identify and periodically report to IDHS the tax credits which qualify for claiming under the federal TANF program.

During our testwork, we noted IDOR's procedures for verifying the validity of taxpayer's earned income tax credit claims with federal tax returns are not completed prior to paying refunds to taxpayers or preparing the earned income tax credit claiming report for IDHS. IDOR performs a series of data edits designed to identify individuals who may not meet the earned income tax credit criteria; however, the edit checks are subject to data verification procedures once the federal tax return is received from the federal Internal Revenue Service. The data verification procedures are not performed until the middle of the following year and have historically resulted in adjustments to amounts previously claimed.

Additionally, during our testwork of 60 earned income tax credits (totaling \$6,635) claimed under the TANF program, we noted one earned income tax credit claimed (\$236) was refunded to a taxpayer whose mailing address was outside of the state of Illinois. Upon further inquiry of IDOR personnel, we noted IDOR's procedures for identifying claimable earned income tax credits do not include verifying whether taxpayers with addresses outside of Illinois meet the earned income tax credit state residency requirement. IDOR's practice is to eliminate earned income tax credits paid to taxpayers with addresses outside of Illinois in connection with the IRS verification procedures discussed above. As a result, IDOR had not determined whether or not the earned income tax credit for this taxpayer was allowable under the TANF program.

Earned income tax credits claimed under the TANF program were \$17,274,904 during the year ended June 30, 2008.

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According to 45 CFR 260.33(b), only the refundable portion of a State or local tax credit is considered to be an allowable expenditure. The refundable portion that may be counted as expenditure is the amount that exceeds a family's State income tax liability prior to the application of the earned income tax credit. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure expenditures meet the applicable program allowability criteria prior to claiming.

In discussing these conditions with IDOR officials, they stated that it is operating an effective program within the constraints of information on the tax return and the within verification requirements of the federal TANF program. Rather than utilizing alternative procedures, all of which would materially delay refunds to taxpayers; the Department has adopted a post-drawdown verification as the most prudent course.

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 08-16, 07-24, 06-20, 05-31)

Recommendation:

We recommend IDOR review the process and procedures in place to identify earned income tax credit expenditures claimed under the TANF program and implement changes necessary to ensure only amounts eligible for claiming are reported to IDHS.

IDOR Response:

The Department of Revenue agrees with the recommendation. The issue here is the appropriate verification before the drawdown of federal TANF funds. It is important to note that the department believes that it has implemented a verification process that meets federal requirements and has been told by Washington D.C. staff at the U.S. Department of Health and Human Services that: "The State has a reasonable verification procedure in place. . . ."

However, the department will work with IDHS to get a more formal response than the current guidance.

It should be noted the one earned income tax credit claimed (\$236) whose mailing address was outside the state was properly refunded.

Auditors' Comment

As stated in the finding above, the verification procedures are not performed by IDOR until several months after IDHS has claimed the tax credits reported by IDOR. The emphasis of this finding is the timeliness of the IDOR verification process, not the verification procedures themselves.

Additionally, IDOR's established practice is not to claim tax credits for taxpayers with addresses outside the State as current procedures are not designed to determine whether these taxpayers meet the eligibility requirements. Based upon IDOR's practice, the tax credits in our sample should not have been claimed.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

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

Program Name: State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 08-17 *Inadequate Procedures for Performing Eligibility Redeterminations*

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

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and SCHIP programs. As part of the passive redetermination procedures, a renewal form which contains key eligibility criteria is sent through the mail to the beneficiary. The beneficiary (or the beneficiary's guardian) is required to review the renewal form and report any changes to eligibility information; however, in the event there are no changes to the information and there are only children on the case, a response is not required.

Upon further review of the passive redetermination process, we noted neither DHFS, nor the Illinois Department of Human Services (IDHS) which performs most eligibility determinations for these programs, maintains a formal record of the cases subject to passive redetermination procedures. As a result, we were unable to quantify the number of cases subject to the passive redetermination policy.

Payments made on the behalf of beneficiaries of the Medicaid and SCHIP programs were \$6,313,321,000 and \$337,976,000 during the year ended June 30, 2008.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the *OMB Circular A-133 Compliance Supplement*, dated March 2008, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid and SCHIP programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis. According to 42 CFR 435.916(b) the State is required to implement procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure eligibility redeterminations are performed in accordance with the State Plan and federal regulations.

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In discussing these conditions with DHFS officials, they stated that they felt they were in compliance with all State and Federal regulations regarding the renewal process.

Failure to implement appropriate eligibility redetermination procedures in accordance with the state plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 08-17, 07-25)

Recommendation:

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

DHFS Response:

The Department respectfully disagrees with the finding. The Department's administrative renewal process is performed in accordance with the federal regulations and State Plans. Per the Department of Health and Human Services letter to State Medicaid Directors dated February 6, 1997, "The redetermination can be based on information contained in the individual's Medicaid file if the State believes that information is accurate." The State Plans require that eligibility be reviewed annually, but does not specify what procedures are to be used. The Department does review eligibility annually, either administratively or manually depending on the family situation.

Federal policy supporting this process was affirmed by Congress and the President in the recent reauthorization of the Children's Health Insurance Program Reauthorization Act of 2009. It is included in Section 104 as one of eight enrollment and retention measures for which states may qualify for bonus payments.

The Department does have an internal tracking system for SCHIP cases maintained by the central unit. The system identifies cases eligible for administrative renewal and tracks if the form is returned with reported changes and indicates the outcome of each case due for renewal.

Currently there is not a statewide tracking mechanism for administrative renewals across both agencies. The Department will work with the Illinois Department of Human Services to review the feasibility of reprogramming the data system to track administrative renewals across both agencies.

Auditors' Comment:

As stated above, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the "All Kids" program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs. The Children's Health Insurance Program Reauthorization Act of 2009 referenced in the Agency's response was not effective in 2008.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

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

Program Name: State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: \$26,385

Finding 08-18 *Failure to Determine Eligibility in Accordance with Program Regulations*

DHFS did not determine the eligibility of beneficiaries under the State Children's Insurance Program (SCHIP) and Medicaid Cluster programs in accordance with federal regulations.

During our testwork of SCHIP and Medicaid Cluster beneficiary payments, we selected a sample of 60 SCHIP and 125 Medicaid eligibility files to review for compliance with the applicable program eligibility requirements. We noted the following exceptions during our testwork:

- In one SCHIP case, the eligibility file did not contain supporting documentation evidencing an eligibility determination had been performed in accordance with the State Plan. Specifically, we noted the beneficiary on this case was a pregnant mother whose initial eligibility determination was performed in July 2007 using a Medicaid Presumptive Eligibility application which does not require documentation of income or assets. Accordingly, a complete eligibility determination was required to be performed by September 1, 2007 for this individual to continue receiving benefits. Although case worker notes and the electronic case record indicated an eligibility determination may have been performed in July 2007, the case record does not contain any documentation supporting a full eligibility determination was performed until February 2008. Medical assistance payments made on the behalf of this beneficiary during the period of ineligibility (September 1, 2007 through February 1, 2008) were \$1,707. The payment selected in our sample for this case was \$122.
- In three SCHIP case files and one Medicaid case file, DHFS could not provide documentation supporting eligibility redetermination procedures were performed in accordance with the State Plan. Medical assistance payments made on the behalf of these beneficiaries during the period of ineligibility were \$11,193 and \$13,485, respectively. The payments selected in our sample were \$244 for the SCHIP cases and \$147 for the Medicaid case.

Payments made on the behalf of beneficiaries of the SCHIP and Medicaid Cluster programs were \$337,976,000 and \$6,313,321,000, respectively, during the year ended June 30, 2008. Payments made on behalf of beneficiaries selected for our testwork were \$14,153 and \$149,498 for the SCHIP and Medicaid Cluster programs, respectively.

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In accordance with 42 CFR 435.10 and the OMB Circular A-133 Compliance Supplement, dated March 2008, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the SCHIP and Medicaid Cluster programs. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure beneficiary eligibility determinations are performed and documented in accordance with the provisions of the State Plan.

In discussing these conditions with DHFS officials, they stated that in the case of the eligibility determination exception, the case file was transferred, along with the application, to the Illinois Department of Human Services (DHS). This transfer would have made DHS accountable for this case file and not DHFS. The Department further stated that they were in compliance with all State and Federal regulations regarding the renewal process.

Failure to properly perform eligibility determinations may result in expenditures being made on the behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 08-18)

Recommendation:

We recommend DHFS review its current process for performing eligibility determinations and consider the changes necessary to ensure all eligibility determinations are performed in accordance with federal regulations and the State Plans.

DHFS Response:

The Department respectfully disagrees with the finding. The Department was able to provide documentation that the file in question had been sent to the Illinois Department of Human Services (IDHS) and had been signed for by a staff member at their office. IDHS was unable to locate that file, which would have contained the information in question.

The Department and IDHS have both started pilot projects that would allow for shared imaged files. Such a project would prevent the loss of files in the future.

The administrative renewal process is in accordance with the federal regulations and State Plans. Per the Department of Health and Human Services letter sent to State Medicaid Directors dated February 6, 1997, "The redetermination can be based on information contained in the individual's Medicaid file if the State believes that information is accurate." The State Plans require that eligibility be reviewed annually, but does not specify what procedures are to be used. When the administrative renewal process is used, and there are no changes to the family's situation, the coverage is systematically renewed and there would be no documentation to put in the file.

Auditors' Comment:

Neither DHFS, nor IDHS was able to provide documentation supporting an eligibility determination had been performed for the case identified in the first bullet point above. DHFS provided case notes stating that the file had been transferred to IDHS; however, IDHS had no record of receiving the file.

As stated in finding 08-17, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that

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recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the “All Kids” program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs. The Children’s Health Insurance Program Reauthorization Act of 2009 referenced in the Agency’s response was not effective in 2008.

Additionally, neither DHFS, nor IDHS could provide documentation supporting the passive redetermination process was used for the three cases in the second bullet point.

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

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

Program Name: State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 08-19 *Failure to Process Medical Claims within Prescribed Timeframes*

DHFS is not processing practitioner medical claims for individuals receiving benefits under the State Children's Insurance Program (SCHIP) and Medicaid programs in accordance with timeframes required by federal regulations.

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

During our audit, we noted DHFS performs periodic analyses to monitor compliance with medical payments timeframe requirements. Upon review of the analysis covering practitioner medical payments during state fiscal year 2008, we noted medical payments were not made within the 30 day payment timeframes required by federal regulations. Management's analysis identified that of the 22,170,000 claims paid in state fiscal year 2008, only 51% (12,372,000 claims) were paid within 30 days of receipt. In addition, during our testwork of 10 SCHIP and 17 Medicaid practitioner medical payments selected for test work, we noted 3 SCHIP (30%) and 7 Medicaid (41%) payments were paid (based on warrant issuance date) more than 30 days after they were received from providers. Delays in paying these medical claims ranged from two to 33 days after the required timeframe.

In accordance with 42 CFR 447.45(d), the State is required to pay 90% of all clean claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. The State must pay all other claim within twelve months of the date of receipt.

In discussing these conditions with DHFS officials, they stated that payments are processed promptly and the delays in payment were due to a lack of funds necessary to initiate payments.

Failure to pay medical claims in accordance within the required timeframes may result in unallowable costs being charged to the program. (Finding Code 08- 19)

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Recommendation:

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

DHFS Response:

The Department agrees with the finding and has requested sufficient appropriations in its budget request to allow payments in a timeframe consistent with federal regulations.

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For the Year Ended June 30, 2008

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

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

Program Name: State Children’s Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: None

Finding 08-20 Failure to Complete Provider Audits in a Timely Manner

DHFS did not complete audits of providers of the State Children’s Insurance Program (SCHIP) and Medicaid Cluster programs in a timely manner.

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

During our testwork over 41 provider audits, we noted provider audits were not completed in a timely manner. Specifically, we noted twelve of the 41 audits tested had not been completed as of the date of our testwork. The number of days that had elapsed since the audit had been initiated ranged from 138 to 1,259 days. Additionally, of the 29 completed audits in our sample, the length of time to complete the audits after the audit start date ranged from 16 to 168 days. The provider audits were completed as follows:

Timeframe	Number of Provider Reviews
0-44 days after audit start date	2
45-90 days after audit start date	11
91-120 days after audit start date	8
121-150 days after audit start date	3
151-180 days after audit start date	5
180 + days after audit start date	0

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We also noted during our testwork that there were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, we noted the number of days that had elapsed between the determination date and the audit start date ranged from 16 to 1,024 days for the 41 audits reviewed in our testwork.

According to 42 CFR 455.17, the OIG is required to report on the results of its activities and investigations periodically. The OIG has a responsibility to investigate violations of the applicable laws, follow up on complaints, and perform provider audits. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure provider analysis and audits are performed and completed in a timely manner.

In discussing these conditions with DHFS officials, they stated there are extenuating circumstances from time to time that may extend the audit process and are outside the control of the OIG. In addition, the Department stated that federal guidelines do not stipulate an audit period or the number of audits to be completed.

Failure to perform provider audits in a timely manner may result in federal funds being expended for unallowable purposes and may prevent the State from adequately monitoring payments to providers. (Finding Code 08-20)

Recommendation:

We recommend DHFS implement procedures to ensure provider audits are performed and completed in a timely manner.

DHFS Response:

The Department partially agrees with this finding. It should be noted that there is no federally prescribed timeframe for completion of provider audits; however, the OIG strives to complete all audits in a timely manner. Further, the audits cited in the finding were completed within the 180-day time frame for which the auditors stated was an acceptable audit period. As with the nature of the audit profession, situations occur that may extend the time necessary to complete the audit such as: the type of audit being conducted (i.e., pharmacy, hospital, and individual practitioner), the size of the auditee (hospital vs. individual practitioner), a re-audit at the request of the auditee, and the availability of the information to be audited. There are also delays due to external entities, such as the Federal Bureau of Investigation or Illinois State Police, performing investigations on the same auditee. For these cases, the OIG is requested to extend the audit until the review is complete or the records are returned, which occurred in one of the cases sampled.

The OIG will review its policies and procedures to determine if changes should be made that would better define a provider audit period, as well as the time frame for the determination date and begin date of the audit.

Auditors' Comment:

Although the audits selected in our sample were completed (measured from the start of fieldwork to the issuance of an audit report) within 180 days, the number of days that had elapsed between the determination date and the audit start date ranged from 16 to 1,024 days for the 21 audits reviewed in our testwork. DHFS officials stated indicated the delays in starting audits stemmed primarily from a lack of resources to perform the audits.

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

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

Program Name: State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: None

Finding 08-21 *Untimely Completion of Medicaid Eligibility Quality Control Reviews*

DHFS did not complete Medicaid Eligibility Quality Control (MEQC) reviews in a timely manner.

The DHFS Office of the Inspector General (OIG) is responsible for performing and reporting the results of quality control reviews of beneficiary eligibility determinations performed by the State for the Medicaid and SCHIP programs. In place of the traditional MEQC program, the OIG participates in various MEQC pilot programs which target specific eligibility risk areas. Those pilot programs include an Income Verification Review (Income) and a Redetermination Accuracy Review (Redetermination). The Income and Redetermination reviews are performed on a federal fiscal year basis for a sample of cases selected from a population of all active beneficiary cases of the Medicaid Cluster and Temporary Assistance for Needy Family programs. These reviews are designed to assist the State in monitoring the accuracy of eligibility determinations and the appropriateness of medical payments made on the behalf of beneficiaries. The results of these reviews are required to be reported to the Center for Medicare and Medicaid Services (CMS) within ten months of the end of the applicable fiscal year.

During our audit, we noted the review results for the Income review for the federal fiscal year ended September 30, 2006 (due in state fiscal year 2008) and for the Redetermination review for the federal fiscal year ended September 30, 2007 were not submitted within the timeframes required by federal regulations. Specifically, the Income review was submitted three months late (on October 30, 2007) and the Redetermination review had not been submitted as of January 30, 2009. Additionally, during our review of 15 Income reviews and 15 Redetermination reviews completed in fiscal year 2008, we noted reviews were not completed within a reasonable timeframes. The number of days to complete the reviews for our sample of Income and Redetermination reviews ranged from 106 to 551 days.

According to guidance provided from The Centers for Medicare and Medicaid Services (CMS) in a letter from the Chicago Regional Office (No.: 03-06), each state is required to submit pilot review summary reports for the most recently completed federal fiscal year by August 1st of the following fiscal year. Summary reports for the federal fiscal year ended September 30, 2006 and 2007 were due by August 1, 2007 and 2008, respectively. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws,

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regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure MEQC reviews are completed and reported in a timely manner.

In discussing these conditions with DHFS officials, they stated that staff dedicated to the federal fiscal year 2006 MEQC reviews were also in the process of implementing a new case tracking system, which required a learning curve for employees. Reviewers were also performing case reviews associated with the next MEQC Pilot, as well as conducting customer service satisfaction surveys and on site visits for new transportation and durable medical equipment providers.

Failure to complete MEQC reviews in a timely manner and report review results within required time frames may prevent the State from identifying unallowable beneficiary payments and from adequately monitoring the accuracy of eligibility determinations and redeterminations. (Finding Code 08-21)

Recommendation:

We recommend DHFS review its current process for performing MEQC reviews and preparing summary reports and consider changes necessary to ensure reviews are completed in a timely manner and summary reports are submitted within the timeframes required by CMS.

DHFS Response:

The Department partially agrees with this finding. It should be noted that the allowability of beneficiary payments is not impacted by the delay in MEQC reviews. The OIG has taken steps to ensure that required MEQC reports are submitted timely to the federal CMS. The OIG has ceased conducting client satisfaction surveys and on-site visits for new transportation and durable medical equipment providers have been assigned to another area within the OIG. In addition, staff is now adjusted to the case tracking system.

Auditors' Comment:

Although the results of the MEQC may not directly result in the repayment of unallowable costs to USDHHS, errors or irregularities identified by the MEQC process generally result in policy and/or procedural changes designed to detect and/or deter future occurrences of similar errors or irregularities.

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

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

Program Name: State Children's Insurance Program

CFDA # and Program Expenditures: 93.767 (\$348,437,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021

Questioned Costs: None

Finding 08-22 *Improper Reporting of Adjustments for the SCHIP Program*

DHFS improperly reported adjustments for medical services provided under the "Unborn Amendment" waiver of the State Children's Insurance Program (SCHIP) program.

The SCHIP program provides medical assistance benefits, similar to those available to beneficiaries of the Medicaid Cluster program, to children between the ages of newborn and 19 years whose families have modest annual incomes which exceed the Medicaid standard income requirement (133% of the poverty level). DHFS received an "Unborn Amendment" waiver from USDHHS for the SCHIP program which allows the State to claim medical assistance payments made on behalf of expectant mothers for prenatal and labor and delivery services on the basis that the beneficiary of these services is the unborn fetus. Under this waiver program, upon the delivery of her newborn child, the mother's medical benefits cease and only those medical services provided to the newborn child are covered by the program. As a result, DHFS is required to analyze medical services provided to expectant mothers each quarter to identify unallowable post partum services required to be eliminated from the quarterly SCHIP claim.

During our testwork over adjustments reported on the quarterly SCHIP claiming reports (CMS-21 report) submitted during the State's fiscal year ended June 30, 2008, we noted DHFS inaccurately reported decreasing adjustments approximating \$1.8 million related to post partum medical services on the March 31, 2008 claiming report. Specifically, we noted DHFS reported a decreasing adjustment of \$1.2 million on the March 31, 2008 claiming report for post partum medical services which had previously been reported on the December 31, 2007 claiming report. In addition, DHFS reported a decreasing adjustment of \$600,000 on the March 31, 2008 claiming report for post partum medical services which should have been adjusted on the December 31, 2007 claim.

In accordance with Section 2110 of the Act and the approved SCHIP State Plan, SCHIP funds are required to be used to provide covered services outlined in the approved State Plan to eligible children. The covered services included in the SCHIP State Plan and approved amendments do not include post-partum care services for mothers. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure only allowable costs are claimed for reimbursement.

In discussing these conditions with DHFS officials, they stated that the prior period adjustment for post partum services occurred due to a system programming error. Programming staff had automated a portion of

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the process used to capture the post partum claims. It was during this conversion from a manual process to an automated process that the error occurred.

Failure to accurately report adjustments in a timely manner may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 08-22)

Recommendation:

We recommend DHFS review its process for identifying adjustments for post-partum services and implement procedures to ensure adjustments are accurately reported.

DHFS Response:

The Department agrees with the finding. The Department has reviewed the process used to identify the post partum services and initiated a new procedure to review any prior period adjustments that exceed a specified threshold. The Department will continue to test programming changes as they are made in the claiming reports.

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For the Year Ended June 30, 2008

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$124,506,000)

Award Numbers: 0704IL4004/0804IL4004

Questioned Costs: None

Finding 08-23 *Inadequate On-Site Monitoring Procedures*

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

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

During our review of the on-site monitoring procedures performed by DHFS for a sample of 15 subrecipients of the Child Support program with expenditures of \$13,135,000 during the year ended June 30, 2008, we noted DHFS has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. Specifically, on-site monitoring procedures are not performed to determine whether subrecipients are documenting administrative expenditures in accordance with the applicable cost principles or whether subrecipients are following appropriate procurement procedures. The on-site monitoring procedures performed by DHFS primarily focus on verifying information reported by the subrecipient relative to locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents and performing physical inventory procedures for CSE equipment purchases. Although DHFS collects a monthly expenditure claim along with documentation supporting the expenditures reported by the subrecipient, the documentation collected does not provide sufficient detail to allow DHFS to evaluate whether the costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.

In addition, during our review of the 15 on-site monitoring files identified above, we noted two monitoring files identified discrepancies in physical inventory procedures performed by DHFS; however, the discrepancies were not reported in the final on-site monitoring reports for these subrecipients and the monitoring file did not include documentation of the resolution of these exceptions. Expenditures passed through to these two subrecipients during the year ended June 30, 2008 were \$5,048,850.

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Total federal awards passed through to subrecipients of the Child Support program were \$19,851,000 during the year ended June 30, 2008.

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

In discussing these conditions with DHFS officials, they stated that they believe their procedures are sufficient to allow DHFS to evaluate with reasonable assurance that the costs meet the allowable costs criteria. These procedures include monitoring monthly expenditure claims along with documentation supporting the expenditures reported by the subrecipient, which have not been identified as deficient in previous audits.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-23)

Recommendation:

We recommend DHFS review its on-site monitoring procedures for subrecipients of its Child Support program and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients.

DHFS Response:

The Department agrees with the finding. The Department currently monitors all of our subrecipients through limited desk reviews or on-site monitoring, depending on the dollar threshold. This process has not been an audit risk in the past. However, in light of the auditor's concerns, the Department will reassess its subrecipient monitoring procedures and make the necessary improvements.

The Department notes that the Federal awards passed through to these subrecipients vary from \$181.00 to \$8,738,423.00. Of the 114 subrecipient Federal awards, there are 90 that are less than \$30,000.00, which account for 3.1% of the total Federal awards expended. Due to the low dollar amount of these Federal awards, it would not be cost effective to warrant an on-site review. The Department will continue to conduct limited desk reviews for these subrecipients and review its monitoring procedures further to determine if additional procedures are needed to ensure the Department evaluates them with reasonable assurance that the costs meet the allowable costs criteria as dictated by OMB Circular A-133.

Of the remaining 24 subrecipients, sixteen (16) account for \$1,854,243.00 or 8.9% of the total Federal award amounts expended while the remaining 8 make up 88%. Monthly limited desk reviews are currently completed on these subrecipients and periodic on-site reviews are conducted to ensure program compliance. In addition, the Department will conduct a full desk review on an annual basis and complete on-site visits on these subrecipients to ensure costs meet the allowable costs criteria as dictated by OMB Circular A-133.

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

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

Program Name: Child Support Enforcement
Low-Income Home Energy Assistance

CFDA # and Program Expenditures: 93.563 (\$124,506,000)
93.568 (\$137,933,000)

Award Numbers: 0704IL4004/0804IL4004 (93.563)
(CFDA Number) G-0602ILLIE5/G-0702ILLIE2/G-07B2ILLIEA/G-08B2ILLIEA (93.568)

Questioned Costs: \$93,575

Finding 08-24 Failure to Issue Management Decisions on Subrecipient A-133 Findings

DHFS did not issue management decisions on OMB Circular A-133 findings for subrecipients of its Child Support Enforcement program and Low-Income Home Energy Assistance program (LIHEAP).

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

During our testwork over OMB Circular A-133 audit reports for 15 subrecipients of the Child Support Enforcement program and ten subrecipients of the LIHEAP program with expenditures of \$13,135,000 and \$89,862,000, respectively, during the year ended June 30, 2008, we noted the following:

- The A-133 audit report for one subrecipient of the Child Support Enforcement program reported questioned costs of \$93,375 for unallowable remodeling costs. Although DHFS acknowledged this finding and the corrective action in a communication of the acceptance of the subrecipient's A-133 report, DHFS did not issue a management decision relative to this finding or require reimbursement of the questioned costs identified in the finding. Amounts passed through to this subrecipient were \$11,945,000 during the year ended June 30, 2008.

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- The A-133 audit report for one subrecipient of the LIHEAP program reported the subrecipient had not submitted an updated indirect cost rate proposal and improperly used a provisional indirect cost rate. Although this finding did not specifically list the LIHEAP program, the subrecipient reported administrative costs of \$3,548,000 during the year ended June 30, 2008 which may have been impacted by this finding. DHFS did not issue a management decision relative to this finding or follow up on the condition identified in the finding. Amounts passed through to this subrecipient were \$64,472,000 during the year ended June 30, 2008.
- The A-133 audit report for one subrecipient of the LIHEAP program reported the subrecipient had not deposited grant funds in a timely manner. DHFS did not issue a management decision relative to this finding or follow up on the condition identified in the finding. Amounts passed through to this subrecipient were \$4,102,000 during the year ended June 30, 2008.

Total federal awards passed through to subrecipients of the Child Support Enforcement and LIHEAP programs were \$19,851,000 and \$134,035,000, respectively, for the year ended June 30, 2008.

According to OMB Circular A-133 §__.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §__.400(d)(5), a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to findings are followed up on and management decisions are issued within required timeframes.

In discussing these conditions with DHFS officials, they stated although the Department did issue a management decision relative to the Child Support Enforcement Program, the Department agrees that they were not issued for the LIHEAP program.

Failure to follow up and issue management decisions on subrecipient findings may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-24)

Recommendation:

We recommend DHFS establish procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

DHFS Response:

The Department partially agrees with the finding. The Department has implemented procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133. These procedures include utilization of a Corrective Action Review Sheet identifying the applicable Department CFDA number along with a description of the entity's corrective action. Approval of the corrective action will be obtained prior to issuance of a management decision.

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Auditors' Response:

As stated in the finding above, the management decision letter issued by DHFS personnel did not specifically address the finding or questioned costs identified in the subrecipient's OMB Circular A-133 report, nor did the letter address DHFS' acceptance of the subrecipient's proposed corrective action plan. The letter issued was simply an acknowledgement of the receipt of the report and related documents which does not constitute a management decision.

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

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

Program Name: Low-Income Home Energy Assistance

CFDA # and Program Expenditures: 93.568 (\$137,933,000)

Award Numbers: G-0602ILLIE5/G-0702ILLIE2/G-07B2ILLIEA/G-08B2ILLIEA

Questioned Costs: None

Finding 08-25 *Inadequate Process for Accurately Reporting Subrecipient Refunds*

DHFS did not accurately report refunds from Local Administering Agencies (subrecipients) on the annual SF-269.

DHFS is responsible for administering the Low-Income Home Energy Assistance Program. The objectives of this program are to assist low-income households to better afford the rising cost of energy through direct financial assistance, energy counseling, outreach and education. DHFS passed through \$134,035,000 of federal funding to thirty eight subrecipients during the year ended June 30, 2008 to administer the program at the local level. These agencies are responsible for taking client applications, verifying eligibility information, issuing assistance payments to energy vendors and performing outreach, referral, energy-related counseling activities. The subrecipients request cash advances approximately monthly based upon estimated expenditures. When actual expenditures are less than estimated expenditures, subrecipients reduce future cash draws by the amount of excess cash advanced. Once the grant period expires, any excess cash is refunded to DHFS.

During our testwork over the annual SF-269 for federal fiscal year 2007 (submitted in fiscal year 2008), we noted DHFS reduced claimable expenditures by \$6,439,000 for refunds received from subrecipients. Of this amount, \$316,000 represented subrecipient refunds received for federal fiscal year 2006 awards which should have been used to reduce claimable expenditures on the SF-269 submitted for federal fiscal year 2006.

According to 45 CFR 96.30(b)(4), grantees are required to report financial information for each award year on the 269A report. Additionally, A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all adjustments to financial reports are reported in the period in which the adjustment occurs.

In discussing these conditions with DHFS officials, they stated that they were initially unaware that refunds occurred in the LIHEAP program.

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Failure to identify subrecipient adjustments in a timely manner may result in inaccurate financial reporting of program expenditures. (Finding Code 08-25)

Recommendation:

We recommend DHFS revise its process for preparing financial reports to ensure that all adjustments are identified in a timely manner.

DHFS Response:

The Department agrees with the finding. The issue of subrecipient refunds was identified by the Department during their own internal reconciliation work. Upon identification of the situation, the Department took immediate corrective action by reducing the claim for federal fiscal year 2007. At that time, the Department also established a process for identifying all future subrecipient refunds so they would be handled in a timely manner. This process continues to be in place.

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For the Year Ended June 30, 2008

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

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

Program Name: Temporary Assistance for Needy Families

CFDA # and Program Expenditures: 93.558 (\$537,011,000)

Award Numbers: G-0702ILTANF/G-0802ILTANF

Questioned Costs: None

Finding 08-26 Unallowable Costs Used to Meet the TANF Maintenance of Effort

State funded energy assistance expenditures and certain state funded medical expenditures were improperly used to meet the maintenance of effort (MOE) requirement of the Temporary Assistance for Needy Families (TANF) program.

The Illinois Department of Human Services (IDHS) is the state agency responsible for administering the TANF program. As a condition of receiving federal TANF funds, the State is required to maintain a level of “qualified” state funded expenditures for programs or services benefiting eligible families (TANF MOE requirement). In an effort to maximize the State’s reimbursement under the TANF program, IDHS coordinates with a number of state agencies (including DHFS) which have agreed to allow IDHS to use expenditures from their state-funded human service programs to meet the TANF MOE requirement.

During our testwork of 60 TANF MOE expenditures (totaling \$74,252) reported to IDHS by DHFS, we noted the following exceptions:

- State funded energy assistance expenditures reported by DHFS as qualifying for the TANF MOE requirement included payments made on behalf of beneficiaries who were not eligible under the TANF regulations. Specifically, we identified one beneficiary payment in our testwork which was paid on behalf of a family that is not TANF eligible. Upon further investigation, it was determined that the TANF beneficiary identification number for this family was incorrectly entered into the LIHEAP beneficiary system and payments to this family were improperly claimed. The unallowable payment selected in our testwork was \$128 and was the only payment made on behalf of the ineligible family identified in our testwork that was used to meet the TANF MOE requirement during the year ending June 30, 2008.
- State funded medical expenditures reported by DHFS as qualifying for the TANF MOE requirement included medical payments made on behalf of beneficiaries who were not eligible under the TANF regulations. Specifically, we identified two beneficiary payments in our testwork which were paid on behalf of individuals that were not TANF eligible. Upon further investigation, it was determined that the households for these beneficiaries did not include a child under the age of 18. The unallowable payments selected in our testwork were \$25,763. Unallowable payments made on behalf of the ineligible individuals in our sample which were used to meet the TANF MOE requirement during the year ending June 30, 2008 totaled \$33,519.

TANF MOE expenditures for the year ended June 30, 2008 were \$493,958,158, which include expenditures of \$59,492,956 that were incurred by DHFS.

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According to 45 CFR 263.2(b)(1), the benefits or services used to meet the maintenance of effort count only if they have been provided to or on behalf of TANF eligible families. According to 42 USC 608(a)(1), to be eligible for TANF assistance, or any MOE-funded benefits, services, or assistance, a family must include a minor child who lives with a parent or other adult caretaker relative. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure the expenditures used to meet the TANF MOE requirement are consistent with the applicable allowable cost criteria.

In discussing these conditions with DHFS officials, they stated the use of the unqualified energy assistance payments resulted from data entry error of the TANF beneficiary number into the LIHEAP beneficiary system. In addition, use of the unqualified medical expenditures resulted from incorrect coding of a recipient's case by the Department of Human Services.

Failure to ensure MOE expenditures meet the applicable allowable cost criteria may prevent the State from meeting the TANF MOE requirement and may result in a disallowance of costs. (Finding Code 08-26, 07-26)

Recommendation:

We recommend DHFS review the process and procedures in place to identify expenditures to be used to meet the TANF MOE requirement and implement changes necessary to ensure only allowable costs are reported to IDHS.

DHFS Response:

The Department agrees with the finding. As the ineligible client's case continued to be coded with a category of assistance pertaining to a family after the only child on the case reached the age of 18, the medical expenditures for the identified client were reported by the Department for TANF MOE purposes. The Department's reporting system, which gathers expenditures to be reported for TANF MOE, is dependent upon, among other criteria, the client's category of assistance. Based upon the coding of the client's case, the Department's process for identifying TANF MOE expenditures functioned properly. Due to the error in coding of the client's case, however, the reported expenditures were, in fact, not eligible under TANF regulations. The Department notified the Department of Human Services of the coding error and appropriate action was taken on the case.

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

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

Program Name: Child Support Enforcement
Low Income Home Energy Assistance
State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563 (\$124,506,000)
93.568 (\$137,933,000)
93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 0704IL4004/0804IL4004 (93.563)
(CFDA Number) G-0602ILLIE5/G-0702ILLIE2/G-07B2ILLIEA/G-08B2ILLIEA (93.568)
05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: \$17,383

Finding 08-27 *Inaccurate Allocation of Costs*

DHFS did not accurately allocate costs to its federal programs in accordance with the Public Assistance Cost Allocation Plan (PACAP).

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

During our review of costs allocated to federal programs during the quarter ended March 31, 2008, we noted the allocation method used for the "Special Assistant for Hospital Policy" cost center was not consistent with the methodology defined in the PACAP. Specifically, DHFS used the Central Indirect cost allocation method instead of the Medical Allocation methodology prescribed in the PACAP which resulted in costs improperly being allocated to all federal and state programs administered by DHFS. As a result, the Child Support Enforcement and Low Income Home Energy Assistance Program were erroneously allocated costs totaling \$17,045 and \$338, respectively, during the year ended June 30, 2008.

According to 45 CFR 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include

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procedures to ensure allocation methodologies used by the agency are consistent with those approved in the PACAP.

In discussing these conditions with DHFS officials, they stated that the allocation was not manually redirected to the correct allocation due to staff oversight.

Failure to accurately allocate costs in accordance with the PACAP may result in disallowances of costs. (Finding Code 08-27)

Recommendation:

We recommend DHFS review its procedures for preparing cost allocation workpapers and implement any changes necessary to ensure allocation methods used are consistent with those approved in the PACAP.

DHFS Response:

The Department agrees with the finding. Based upon the cost center, the position automatically defaulted to the Central Indirect allocation and was not manually redirected to the Supportive Medical allocation. The Department will review its procedures to ensure that costs are allocated in accordance with the PACAP.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$124,506,000)

Award Numbers: 0704IL4004/0804IL4004

Questioned Costs: None

Finding 08-28 *Failure to Properly Perform Non-Custodial Parent Location Procedures*

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

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

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

- Nine cases (15%) in which interviews with custodial parents were not scheduled for timeframes ranging from 29 days to 97 days after the referral or application had been received.
- One case (2%) in which the interview with the custodial parent was never scheduled due to an error made by an employee.

According to 45 CFR 303.2(b), within 20 calendar days of the receipt of a referral of a case or an application for services the State IV-D agency must open a case and determine necessary action, including to solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information. If there is inadequate location information to proceed with the case, the Title IV-D agency must request additional information or refer the case for further location attempts. According to 45 CFR 303.3(b)(3), within no more than 75 calendar days of determining that location is necessary, the State IV-D agency must access all appropriate location sources, including transmitting appropriate cases to the Federal Parent Locator Service, and ensure that location information is sufficient to take the next appropriate action in a case. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure non-custodial parent location procedures are performed within required timeframes and are adequately documented.

In discussing these conditions with DHFS officials, they stated that of the ten cases with errors noted, only two cases were actually errors and these two were caused by worker oversight.

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Failure to conduct interviews and properly perform parent location procedures could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 08-28, 07-27, 06-23, 05-37, 04-32, 03-29, 02-15, 01-04)

Recommendation:

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

DHFS Response:

The Department partially agrees with the finding. The Department agrees that one case was not scheduled for an interview and that one case experienced a 34-day delay in scheduling. The Department will remind staff to ensure that cases needing a follow-up interview be placed in the scheduling queue in a timely manner

The Department respectfully disagrees with the findings for the other eight cases. The Federal regulations cited by KPMG in the audit, 45 CFR 303.2, (b), state: "For all cases referred to the IV-D agency or applying for services under Sec. 302.33 of this chapter, the IV-D agency must, within no more than 20 calendar days of receipt of referral of a case or filing of an application for services under Sec, 302.33, open a case by establishing a case record and, based on an assessment of the case to determine necessary action: solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information, if appropriate; and if there is inadequate location information to proceed with the case, request additional information or refer the case for further location attempts, as specified in Sec. 303.3."

The regulation requires that the solicitation of information be initiated within 20 days, but does not require that the solicitation be by means of an interview nor that the process be completed within 20 days. By placing the case in the Department's scheduling queue, the Department has initiated the process of soliciting and verifying information. The Department has verified compliance with the federal regulations with the federal Office of Child Support Enforcement. The Department begins solicitation and verification of participant information immediately upon the case being initiated in the KIDS statewide automated system. Cases are assessed for the sufficiency of information and are either placed in a scheduling queue or are referred for additional local locate activity. All case participants are matched with all available central locate sources immediately, and throughout the life of the case.

Auditors' Comment:

Federal regulations require DHFS to open a case and determine necessary action, including to solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information within 20 calendar days of the receipt of a referral of a case or an application for services. Interviews of custodial parents were scheduled in all 60 cases selected for our testwork. Accordingly, we believe interviews of custodial parents continue to be DHFS' primary source for soliciting necessary and relevant information from custodial parent and should be scheduled for completion within 20 calendar days of the receipt of a referral of a case or an application for services. This finding has existed since fiscal year 2004, and although Agency personnel have discussed this finding with federal program staff, the Agency has not received formal resolution of this audit finding.

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For the Year Ended June 30, 2008

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$124,506,000)

Award Numbers: 0704IL4004/0804IL4004

Questioned Costs: None

Finding 08-29 *Failure to Properly Manage and Document Interstate Cases within KIDS*

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

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

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

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

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

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

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- provide notice of formal hearings to the initiating state in a timely manner;
- notify the initiating state of any new information within ten working days of receipt;
- notify the initiating state when the case is closed.

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

- Two initiating cases (7%) were not referred to the responding state within the twenty day federal timeframe after DHFS had determined the non-custodial parent was located in another state. The delays in referring these cases were 11 and 27 days after the required federal timeframe.
- One initiating case (3%) was never referred to the responding state as required by federal regulations.
- One responding case (3%) was not properly coded as a responding interstate within the KIDS system until 377 days after the case was created due to an error made by an employee. The case was created when a previous responding interstate case was split into multiple cases.

According to 45 CFR 303.7, the State IV-D agency must provide the appropriate child support services needed for interstate cases and meet the related required timeframes pertaining to the child support service provided. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure interstate cases are referred in accordance with required timeframes and are adequately documented.

In discussing these conditions with DHFS officials, they stated that of the four cases with errors noted, only two cases were actually errors and these two errors were caused by worker oversight.

Failure to (1) properly manage interstate child support cases and (2) accurately and adequately document case activity may result in DHFS failing to provide required and appropriate child support services. (Finding Code 08-29, 07-28, 06-24)

Recommendation:

We recommend DHFS review its procedures for managing interstate cases and implement any procedures necessary to ensure initiating interstate cases are properly referred to the responding state and to provide accurate and adequate documentation of its actions, determinations, and communications related to responding cases.

DHFS Response:

The Department partially agrees with the finding. The Department agrees that two cases cited were delayed in being referred to the responding state. The Department will remind staff to initiate the appropriate referral action to the responding states.

The Department respectfully disagrees with the other two cases cited as errors. One of the initiating cases was cited as delayed 11 days in referring to the responding state. This case was put into the scheduling queue to interview the Custodial Parent (CP) on the same date it was opened, thus meeting the Federal 20 day requirement for initiating the process of soliciting and verifying information. The appointment was scheduled

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for June 23, 2008 and the case was then referred to the responding state on that same date after the interview was completed.

The case that was cited as not properly coded as a responding interstate case within KIDS until 377 days after the case was created is not accurate. Contact with the initiating state to document the activities Illinois reported to them, revealed that this interstate case was canceled by the initiating state in 02/07 due to non-cooperation by the custodial parent. The initiating state disclosed that they failed to notify Illinois DCSE that they had canceled the interstate case. This case originally started as an interstate case on case #Cxxxxxx29. All interstate actions were being taken under this original case number. Since some of the children in this case had paternity established and some had not, actions were being taken to establish paternity on the original case and responses to the initiating state under the original case number were occurring since the interstate services were requested on February 4, 2003. The second child, for which paternity was not in question, was added to the Responsible Relative case which was reviewed by the auditor. Activities on this case were being reported to the initiating state under the original case number (alleged father case). The original responding case number is referenced on all case notes for this case number since August 8, 2002. This case was converted to a responding interstate case on March 3, 2008, after it was determined that the Non Custodial Parent (NCP) was the father of the oldest children. Notice was sent to the initiating state on the same date this case number was converted to a responding case.

Auditors' Comment:

Although DHFS was able to provide documentation of information being reported on a related case with respect to the exception case identified in the third bullet point above, the case record assigned to the individual contained no information as to the activity on the related case(s), nor did the case file contain a reference to the related cases. As a result, we were not able to determine whether information for the case selected for testwork was ever reported in to the initiating state.

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$124,506,000)

Award Numbers: 0704IL4004/0804IL4004

Questioned Costs: None

Finding 08-30 *Failure to Establish Support Orders Within Required Timeframe*

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

DHFS is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parent, to locate absent parents, establish paternity, and obtain child and spousal support. During our testwork of 60 child support cases, we noted one case (2%) for which DHFS never initiated support order procedures or documented unsuccessful attempts to serve process.

According to 45 CFR 303.4(d), the State IV-D agency must establish a support order or complete service of process necessary to commence proceedings to establish a support order and, if necessary paternity (or document unsuccessful attempts to serve process, in accordance with the State's guidelines defining diligent efforts within 90 calendar days of locating the non-custodial parent). Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure support orders are established and enforced within required timeframes.

In discussing these conditions with DHFS officials, they stated that that the error was caused by worker oversight.

Failure to properly establish a support order or document unsuccessful attempts to establish the support order could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 08-30, 07-29, 06-25, 05-39, 04-34)

Recommendation:

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

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DHFS Response:

The Department agrees with the finding. The Department will remind staff to petition the court or administrative authority for medical support as appropriate.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0605IL5028/05-0505IL5028 (93.778)
(CFDA Number) 05-0605IL5048/05-0505IL5048 (93.775/93.777)

Questioned Costs: None

Finding 08-31 *Inadequate On-Site Monitoring of Subrecipients*

DHFS is not adequately performing on-site monitoring for subrecipients of the Medicaid Cluster.

DHFS passed through approximately \$54,505,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2008 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing desk reviews of single audit reports; and (5) performing on-site reviews of subrecipient operations.

During our review of the monitoring procedures performed by DHFS for 30 subrecipients, we noted DHFS has not established measurable selection criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. Although DHFS has established a risk based approach to selecting subrecipients for desk reviews of administrative claims, DHFS was unable to adequately demonstrate the correlation between subrecipients identified as high risk for desk reviews and those selected for on-site reviews. We noted only 118 LEAs were subject to on-site reviews out of approximately 900 LEAs that received Medicaid funding during the year ended June 30, 2008.

According to OMB Circular A-133 §___400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures for identifying which subrecipients will be subject to on-site monitoring review procedures.

In discussing these conditions with DHFS, officials stated that they do not believe that a specific score alone should determine when a site visit is warranted.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-31)

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Recommendation:

We recommend DHFS develop comprehensive written procedures for determining which subrecipients should be selected for on-site reviews.

DHFS Response:

The Department respectfully disagrees with the finding. A high-risk score initiates a desk review at which time a determination is made as to whether a site visit is warranted. However, the Department does not believe a specific high-risk score should automatically initiate a site visit. Such a standard is an inefficient use of resources, particularly when an LEA may have just received a site visit at the end of the previous fiscal year. In fact, most of the LEAs with high-risk scores that did not have site visits in fiscal year 2008, did receive site visits in fiscal year 2007. These LEAs continued to receive additional scrutiny in fiscal year 2008 as a result of the prior site visits. In many cases, this included on-site training in lieu of a formal on-site visit.

The school year in which LEAs claims are prepared does not align with the required fiscal year audit cycle. Monitoring school claims is an on-going process that crosses fiscal years. Monitoring does not end with a site visit. Procedures for conducting a review often builds on previously completed work and may include additional training if such actions will be more effective in correcting a problem.

While the Department disagrees with establishing an automatic threshold triggering a site visit, additional review summaries have been developed to assist auditors with a better understanding of the on-going review process across fiscal years. Such summaries will document why a site visit may or may not be warranted for individual fiscal years.

Auditors' Comment:

As noted in our finding above, DHFS has established a risk based selection method for performing administrative reviews of claims and for performing on-site monitoring procedures. The risk based approach used by DHFS involves the calculation of a numerical score which is used to identify higher risk subrecipients; however, we were unable to identify a correlation between the risk score (the risk assessment) and the subrecipients subject to administrative claim and on-site reviews.

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

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

Program Name: State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705ILUTRA/05-0805ILMSEA/05-0805IL5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048 (93.775/93.777)
05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: None

Finding 08-32 Failure to Include Allocation Methodology in the PACAP

DHFS did not include an allocation methodology in the Public Assistance Cost Allocation Plan (PACAP) to allocate certain cost centers to the SCHIP and Medicaid programs.

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

During our review of costs allocated to federal programs during the quarter ended March 31, 2008, we noted the PACAP did not prescribe an allocation methodology to allocate costs for the "Special Assistant for HIPAA and Computer" cost center. As a result, DHFS used the Medical Allocation methodology prescribed for other cost centers allocated to the SCHIP and Medicaid Cluster to allocate these cost centers; however, this method was not approved for this cost center.

According to 45 CFR 95.507(b), a cost allocation plan must include all organizational units, a description of the activities performed by each organizational unit and the procedures used to allocate all costs from each organizational unit to the benefiting programs. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all allocation methodologies used are appropriately defined in the PACAP.

In discussing these conditions with DHFS officials, they stated the expenditures associated with the Special Assistant for HIPAA and Computer were appropriately charged using an approved allocation methodology – the supportive medical allocation.

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Failure to include cost allocation methodologies in the PACAP may result in disallowances of costs. (Finding Code 08-32)

Recommendation:

We recommend DHFS implement procedures to ensure allocation methodologies are included in its PACAP for all cost centers.

DHFS Response:

The Department respectfully disagrees with the finding. The Public Assistance Cost Allocation Plan (PACAP) does not contain a cost pool entitled "Special Assistant for HIPAA and Computer". Table 1-4-B in PART 1, Section 4 of the PACAP identifies the cost pools utilized in the cost allocation plan. HIPAA is a Medical APD and, per Table 1-4-E, should be allocated using the supportive medical allocation. PART 2, Section 2.2.0 will be revised from HIPAA to Supportive Medical Allocation under the charge section.

Auditors' Comment:

As identified in our finding and DHFS' response, the PACAP did not clearly identify the cost allocation methodology to be used for the Special Assistant for HIPAA and Computer cost center as required by federal regulations.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$6,607,985,000)

Award Numbers: 05-0705IL5048/05-0805IL5048 (93.775/93.777)
(CFDA Number) 05-0705IL5028/05-0805IL5028 (93.778)

Questioned Costs: None

Finding 08-33 *Inadequate Cash Management Procedures*

DHFS does not have adequate procedures in place to ensure Medicaid Cluster program cash draws are performed in accordance with the Treasury-State Agreement (TSA).

Annually, the State of Illinois negotiates the Treasury-State Agreement with the US Department of the Treasury which details the funding techniques to be used for the draw down of federal funds. The TSA requires DHFS to draw Medical Cluster program funds passed through to Local Education Agencies (LEA) using the direct administrative costs – drawdowns at fixed intervals method. This funding technique requires DHFS to request funds based on actual cash outlays for direct administrative costs during the month. Because the funding technique is on a reimbursement basis, it is interest neutral.

During our testwork over 60 payments to subrecipients of the Medicaid Cluster program, we noted the State's cash draws for payments to LEAs were performed on an advance basis (prior to paying the LEAs). Upon review of all cash draws for payments to LEAs during the year ended June 30, 2008, we noted the number of days cash was drawn in advance of actual cash outlays ranged from one to 125 days.

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the TSA.

In discussing this condition with DHFS officials, they stated that claims for federal funding and the resulting cash draws do not precede payments to Local Education Agencies.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 08-33)

Recommendation:

We recommend DHFS implement procedures to ensure cash draws are performed in accordance with the Treasury State Agreement.

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DHFS Response:

The Department respectfully disagrees with the finding. The transactions reviewed by the auditors are not Medicaid payments and have no relevance to the Treasury State Agreement (TSA). The transactions reviewed are transfers of federal financial participation (FFP) that have been received by the department as a result of a prior Medicaid expenditure by the local education agency (LEA).

LEAs incur costs on behalf of the Medicaid program. The LEA transmits documentation on its costs incurred in support of the Medicaid program to the department. Those costs are included in the department's federal claim and FFP is drawn once the claim has been accepted by the federal Centers for Medicare and Medicaid Services. The non-acceptance of an LEA expenditure as a claimable transaction is a fundamental misunderstanding of the Medicaid program on the part of the auditors. LEAs may, and do, provide necessary services (*e.g.*, speech therapy) and administer certain portions of the Medicaid program. Section 2560.4(F) of the (federal) *State Medicaid Manual* states:

“For the purpose of expenditures for financial assistance under Title XIX, ‘State Agency’ means any agency of the State, including the State Medicaid agency, its fiscal agents, a State health agency, or any State or local organization which incurs matchable expenses . . .”

Paragraph (G)(1)(a)(1) of the same section states,

“ . . . the expenditure is made when it is paid or recorded, whichever is earlier, by any State agency. Public providers are those that are owned or operated by a State, county, city, or other local government agency or instrumentality.”

LEAs are local governments, as federally defined, incurring Medicaid expenditures. As the qualifying Medicaid program expenditures have already been incurred by the LEAs prior to reporting the same to the department, the department is able to comply with 31 *CFR* 205.11(b) and limit the draw to the exact amount required. The transfer of federal funds reviewed by the auditors has no bearing on the TSA. In addition, the audit finding includes contradictory statements regarding interest penalties. Since claims do not precede payments, there is no risk of interest penalties.

Auditors' Comment:

As stated above, the TSA requires DHFS to draw Medical Cluster program funds passed through to LEA's (subrecipients) using a reimbursement based funding technique. The TSA specifically states: “The amount of the request shall be based on the amount of the actual cash outlays for direct administrative costs during the month.” As the TSA governs the timing of cash draws between the State and the federal government, a reimbursement based funding technique requires funds to be paid to the LEA's by the State prior to requesting reimbursement from the federal government. Our testing and discussions with management identified that DHFS' practice is to draw these fund in advance of paying the LEA's which is in violation of the TSA.

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

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

Program Name: Low-Income Home Energy Assistance

CFDA # and Program Expenditures: 93.568 (\$137,933,000)

Award Numbers: G-0602ILLIE5/G-0702ILLIE2/G-07B2ILLIEA/G-08B2ILLIEA

Questioned Costs: None

Finding 08-34 *Failure to Include Interest Calculation Methodology in the Treasury State Agreement*

DHFS did not include a method for calculating an interest liability for the Low Income Home Energy Assistance Program (LIHEAP) in the Treasury State Agreement (TSA) for the year ended June 30, 2008.

Annually, the State of Illinois negotiates the TSA with the US Department of Treasury (the Treasury), which details the funding techniques to be used for the draw down of federal funds and the methods to be used for calculating State and Federal interest liabilities. The TSA is required to include all major federal assistance programs (defined as programs exceeding \$60 million in expenditures) based on the most recent single audit data available. During our testwork over the June 30, 2007 interest liability calculation (submitted in fiscal year 2008), we noted the TSA does not include a methodology for calculating an interest liability for the LIHEAP program. As a result, DHFS calculated its 2007 interest liability using a methodology included in the TSA for another State agency (the Illinois Department of Commerce and Economic Opportunity), which followed the same funding technique for its federal programs. However, this interest liability calculation methodology has not been approved in the TSA for the LIHEAP program.

According to 31 CFR 205.9(g), a State must include the methods used by the State and the Federal agencies to calculate interest liabilities. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure the TSA includes interest calculation methods for all federal assistance programs covered by the agreement.

In discussing this matter with DHFS officials, they stated that when the LIHEAP program was transferred from the Department of Commerce and Economic Opportunity (DCEO) to the Department, the Treasury State Agreement was not updated to reflect the program move between agencies.

Failure to include methods for calculating interest liabilities in the TSA for major programs using advance funding techniques may result in an improper calculation of the State's interest liability to the Federal government. (Finding Code 08-34)

Recommendation:

We recommend DHFS work with the Governor's Office of Management and Budget to ensure the methods for calculating interest liabilities for all major federal assistance programs are included in the TSA.

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For the Year Ended June 30, 2008

DHFS Response:

The Department agrees with the finding. Upon transfer of the LIHEAP program from the Department of Commerce and Economic Opportunity (DCEO) the Department adopted the methodology of interest calculation previously approved for use by DCEO. The Treasury State Agreement for fiscal year 2009 has been revised to include the LIHEAP program in the interest calculation methodologies to be used by the Department.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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

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

Program Name: Foster Care – Title IV-E

CFDA # and Program Expenditures: 93.658 (\$172,144,000)

Award Numbers: 0801IL1401/0701IL1401/0601IL1401

Questioned Costs: \$1,300

Finding 08-35 Missing Documentation in Case Files

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Foster Care program.

In order to be eligible to receive benefits under the program, a child must meet specific financial and non-financial eligibility criteria. One of these criterion is that the child would be eligible for the former Aid to Families with Dependent Children (AFDC) program for which eligibility is based on a child's age, among other factors. In addition, DCFS was authorized by USDHHS to conduct a subsidized guardianship waiver demonstration project, which falls under the Title IV-E Foster Care program. Under the subsidized guardianship program, the court assigns legal guardianship for a child to a private caregiver, providing the child with a more permanent, stable living arrangement as an alternative to long-term foster care while providing administrative cost savings to the program.

During our testwork of Foster Care beneficiary payments, we reviewed 50 case files for compliance with eligibility requirements and allowability of related benefits. We noted the following exceptions:

- In two cases, DCFS could not locate the child's "Order Appointing Private Guardian," evidencing that the subsidized guardianship had been granted to the child's private caregiver. DCFS claimed foster care payments on behalf of these children totaling \$5,338 during the year ended June 30, 2008. Subsequent to the date of our testwork, DCFS obtained and provided copies of the original court order to eliminate the questioned costs of \$5,338 during the year ended June 30, 2008.
- In one case, DCFS could not provide the initial court order removing the child from the relative's home. DCFS claimed foster care payments on behalf of this child totaling \$1,300 during the year ended June 30, 2008.
- In two cases, DCFS could not provide the birth certificate evidencing the child met the age limitations of the program. DCFS claimed foster care payments on behalf of these children totaling \$6,817 during the year ended June 30, 2008. However, one of the cases has already been included in the previous bullets and only \$5,517 is additional questioned costs. Subsequent to the date of our testwork, DCFS noted that in accordance with the Illinois Department of Human Services Workers' Action Guide 03-04-00: Age and Student Status, they provided the social security administration record as verification of the child's age, thus eliminating the questioned costs of \$5,517 during the year ended June 30, 2008.

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

Eligibility for the Foster Care Program is predicated on certain eligibility criteria of the former Aid to Families with Dependent Children (AFDC) Program. According to 45 CFR 233.90, an otherwise eligible child who is under the age of 18 years may not be denied AFDC, regardless of whether she attends school or makes satisfactory grades.

In addition, a state may elect to include in its AFDC program children age 18 who are full-time students in a secondary school, or in the equivalent level of vocational or technical training, and who may reasonably be expected to complete the program before reaching age 19. Based on the foregoing, unless the specific factors are met, eligibility ceases at the child's 18th birthday.

In discussing these conditions with DCFS officials, they stated that the document requested for the case opened in 1992 was received a number of years ago and was thought to have been filed with in the original foster care case file. When the file was retrieved, the initial court order was not included and apparently had been misplaced.

Failure to maintain case file documentation, including birth certificates, relevant court orders, background checks, and licensing documentation could result in payments to ineligible beneficiaries. (Finding Code 08-35, 07-32, 06-29)

Recommendation:

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure birth certificates and relevant court orders exists for all children for whom foster care benefits are claimed.

DCFS Response:

The Department agrees and will review procedures for obtaining and retaining documents. Changes will be made, if necessary, to ensure copies of orders appointing private guardianship and other required documents are retained for all children. If, after further investigation by the Department and if obtaining a copy of the appointing order is not possible, the Department will make the appropriate claiming adjustment for actual amount claimed for the one beneficiary payment questioned by the auditor.

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For the Year Ended June 30, 2008

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

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

Program Name: Foster Care – Title IV-E

CFDA # and Program Expenditures: 93.658 (\$172,144,000)

Award Numbers: 0801IL1401/0701IL1401/0601IL1401

Questioned Costs: None

Finding 08-36 *Failure to Ensure That Required Judicial Determinations Were Made*

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.”

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. As the State administering agency of this program, DCFS receives reports and referrals of children in potentially compromising living situations, including those who are suspected to be abused or neglected. Children in imminent danger may be taken into protective custody. Otherwise, an investigation is performed to determine whether it is necessary to remove the child from the living environment, or if services can be provided to remedy the situation without placement. If removal from the living environment is required as a result of protective custody or an investigation, DCFS presents a motion to the court to gain temporary custody (also known as shelter care) of the minor, resulting from founded reports of abuse or neglect. 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, DCFS could not provide a judicial determination that 1) reasonable efforts were made, or were not required to prevent the removal, and 2) 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 child totaling \$1,300 during the year ended June 30, 2008. This amount is also included as questioned costs related to Finding 08-35, “Missing Documentation in Case Files” and will not be reported as questioned costs in this finding to avoid reporting the questioned costs twice.

According to 45 CFR 1356.21(b), when a child is removed from his/her home, the judicial determination as to whether reasonable efforts were made, or were not required to prevent the removal, must be made no later than 60 days from the date the child is removed from the home. If the determination concerning reasonable efforts to prevent the removal is not made the child is not eligible under the title IV-E foster care maintenance payments program for the duration of that stay in foster care. Further, per 45 CFR 1356.21(b), a child’s removal from the home must have been the result of a judicial determination (unless the child was removed pursuant to a voluntary placement agreement) to the effect that continuation of residence in the home would be contrary to the welfare, or that placement would be in the best interest, of the child. The contrary to the welfare determination must be made in the first court ruling that sanctions (even temporarily) the removal of a child from home. If the determination regarding contrary to the welfare is not made in the first court ruling

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pertaining to removal from the home, the child is not eligible for title IV-E foster care maintenance payments for the duration of that stay in foster care.

In discussing these conditions with DCFS officials, they stated that the situation identified may be attributed in part to one or more procedural and court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used and those hearings are held within required timeframes.

Failure to ensure the appropriate judicial determinations are made could result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 08-36, 07-33, 06-30, 05-45)

Recommendation:

We recommend 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.

DCFS Response:

The Department agrees and will continue to review procedures for obtaining and retaining documents pertaining to judicial determinations. Changes will be made, if necessary, to ensure determinations are made within the required timelines and that required language is included in agreements.

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

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

Program Name: Foster Care – Title IV-E

CFDA # and Program Expenditures: 93.658 (\$172,144,000)

Award Numbers: 0801IL1401/0701IL1401/0601IL1401

Questioned Costs: None

Finding 08-37 *Failure To Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes*

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

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

During our testwork over 50 case files of the Foster Care program, we noted that in one case, DCFS could not provide the necessary documentation to substantiate that the permanency hearing was performed. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of this child totaling \$1,300 during the year ended June 30, 2008. This amount is also included as questioned costs related to Finding 08-35, “Missing Documentation in Case Files” and will not be reported as questioned costs in this finding to avoid reporting the questions costs twice. Subsequent to the date of our testwork, DCFS obtained and provided from the courts the permanency hearing order that was issued during October 2008.

Additionally, DCFS does not have an adequate process in place to ensure permanency hearings are completed within required timeframes for all beneficiaries or to identify beneficiaries for whom permanency hearings have not been conducted.

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

In discussing these conditions with DCFS officials, they stated that the delay experienced, as indicated in the sample, may be attributed in part to one or more court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used. The origin of the delay was a result

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of a federal requirement for specific language for permanency hearings, which required further clarification by ACF, and resulted in confusion as to the timeframe specifics of those requirements.

Failure to ensure permanency hearings are completed in a timely manner may result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 08-37)

Recommendation:

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

DCFS Response:

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

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659 (\$87,313,000)

Award Numbers: 0801IL1407/0701IL1407/0601IL1407

Questioned Costs: \$2,460

Finding 08-38 *Missing Documentation in Adoption Assistance Eligibility Files*

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance program.

The Adoption Assistance Program provides funds to states to support the payment of subsidies and non-recurring expenses on behalf of eligible children with special needs. In order to be eligible to receive benefits under the adoption assistance program, the child must have been removed from the home of a relative either pursuant to a voluntary placement agreement or a judicial determination that remaining in the home is contrary to the welfare of the child, the child must be under the age of 18, and the State must have determined that the child has met certain criteria which may preclude the adoption of the child without adoption assistance benefits. These criteria are defined as “special needs” and include a determination that the child cannot or should not be returned to the home of his/her parents, as well as documentation of the child’s specific factor(s) or condition(s) (such as ethnic background, age, sibling group, or handicap) that precludes the child’s placement for adoption without assistance benefits.

During our testwork of Adoption Assistance beneficiary payments, we reviewed 50 case files for compliance with eligibility requirements and allowability of related benefits. We noted the following exceptions:

- In two cases, DCFS could not locate the child’s birth certificate evidencing the child met the age requirements of the program. DCFS claimed adoption assistance payments on behalf of these children totaling \$10,478 during the year ended June 30, 2008. Subsequent to the date of our testwork, DCFS noted that in accordance with the Illinois Department of Human Services Workers’ Action Guide 03-04-00: Age and Student Status, they provided the child’s adoption decree as verification of the child’s age, thus eliminating the questioned costs of \$10,478 during the year ended June 30, 2008.
- In two cases, DCFS could not locate the initial judicial determination effecting that the child’s continuation 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 adoption assistance benefits made on behalf of these children totaling \$7,120 during the year ended June 30, 2008. Subsequent to the date of our testwork, DCFS provided a copy of the initial judicial determination for each case to eliminate the questioned costs of \$7,120 during the year ended June 30, 2008.

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- In one case, DCFS could locate the final adoption decree for the child who had been placed into adoption. DCFS claimed adoption assistance payments on behalf of this child totaling \$2,669 during the year ended June 30, 2008. Subsequent to the date of our testwork, DCFS obtained and provided a copy of the original court order to eliminate the questioned costs of \$2,669 during the year ended June 30, 2008.
- In one case, DCFS could not locate the petition to terminate, order to terminate, or surrender of parental rights, evidencing that the child could not or should not be returned to the home of his/her parents. DCFS claimed adoption assistance payments on behalf of this child totaling \$2,460 during the year ended June 30, 2008.

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

According to 42 USC 673 (a)(2)(A)(i), in order to be eligible for adoption assistance benefits, a child must have been removed from a home pursuant to a voluntary placement agreement or a judicial determination that remaining in such home would be contrary to the child's welfare. The only stipulation specified in the requirement is that the child need not be removed from the home of a relative. According to 42 USC 673 (a)(4), payments are discontinued when the child attains the age of eighteen, unless the child has a physical or mental handicap which may warrant the continuation of assistance until the age of twenty-one. In accordance with 42 USC 673(c), a child shall not be considered a child with special needs unless the State has determined that the child cannot or should not be returned to the home of his parents and the child cannot be placed with adoptive parents because of the child's specific factor(s) or condition(s), such as ethnic background, age, sibling group, or handicap. In addition, the State must have made a reasonable effort to place the child for adoption without a subsidy, unless it is against the best interests of the child because of significant emotional attachment to the prospective adoptive parent.

In discussing these conditions with DCFS officials, they stated that issues may exist in adoption case files due to the fact that private agencies and DCFS adoption staffs have the responsibility to provide all of the required documents to the Post Adoption Unit at the point of adoption finalization. If documents are missing at that time, there is little influence that the Post Adoption Unit can have to make the agencies produce the documents since they do not oversee their work. At the same time, the Post Adoption Unit has great pressure to open the adoption assistance case so the adopted child can continue to receive a subsidy. If they cannot obtain the documents at the point of finalization, it is very difficult to go back years later and try to retrieve them.

Failure to maintain case file documentation, including initial judicial determinations, birth certificates, and court orders could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 08-38, 07-34, 06-32, 05-44)

Recommendation:

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations, birth certificates, and adequate documentation of special needs exists for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed.

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DCFS Response:

The Department agrees and has established an inter-divisional committee that has developed new checklists that have been distributed to the private sector, DCFS staff, and post adoption staff. The Post Adoption Unit staff now will not accept new materials or open new adoption assistance cases until all of the materials on the checklist are included and delivered to the Unit. Additionally, a large portion of the subsidy requests will be sent to a central location for review before the payments are claimed.

For outstanding issues on files from the past, the staff will work to obtain the missing documents from various sources as they are identified. If, after further investigation by the Department, the issue remains, the Department will make the appropriate claiming adjustment for actual amount claimed for the one beneficiary payment questioned by the auditor.

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For the Year Ended June 30, 2008

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

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

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

CFDA # and Program Expenditures: 93.558 (\$537,011,000)
93.658 (\$172,144,000)
93.659 (\$87,313,000)
93.667 (\$127,372,000)

Award Numbers: G-0701ILTANF/G0801ILTANF (93.558)
(CFDA Number) 0801IL1401/0701IL1401/0601IL1401 (93.658)
0801IL1407/ 0701IL1407/0601IL1407 (93.659)
G-0601ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)

Questioned Costs: None

Finding 08-39 *Inadequate and Untimely Fiscal Monitoring of Subrecipients*

DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the Temporary Assistance for Needy Families, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs.

In our sample of 50 subrecipient monitoring files out of a total of 195 subrecipients, we noted that on-site fiscal and administrative monitoring procedures have never been performed for 19 subrecipients. Upon further discussion with management, we noted that on-site monitoring procedures have only been performed for 17 of 195 total subrecipients of the Temporary Assistance for Needy Families, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs during the year ended June 30, 2008. Additionally, we noted fiscal and administrative monitoring procedures did not adequately address all direct and material compliance requirements.

Per OMB Circular A-133 Compliance Supplement, dated March 2008, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with DCFS officials, they stated that the desk review, which is the annual review of audited financial statements, OMB A-133 audits, and related reports from the independent CPA's (annual audit package), is the principle basis for the fiscal monitoring of sub-recipients. The annual audit package contains reports and findings issued by licensed accountants with professional credentials to review recipients of federal funding. Audit packages are received from all agencies that receive over \$150,000 during the State's fiscal year. Over 200 agencies are required to submit the annual audit package, and a desk

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review is performed on all annual audit packages required to be submitted. The desk review program is the most effective and cost efficient method for DCFS to monitor sub-recipients' activities, and provide reasonable assurance that the sub-recipient administers federal awards in compliance with federal requirements. On-site reviews are also used when the assessment of risk so indicates the necessity, and staff resources are available. The majority of reports received do not contain major issues and DCFS providers do not make eligibility determinations for foster care services reimbursed by the Department which would be a primary cause for ineligible services. Those sub recipients selected for field visits are generated from the desk reviews completed in the prior year that have notable negative issues. Auditors contact the Department's programmatic monitors and the licensing representatives to discuss and share any potential problems at the sub recipients to aid in the scheduling of on-site visits, and prioritize on-site audit activities.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-39, 07-36, 06-34, 05-47, 04-36, 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

Recommendation:

We recommend DCFS implement procedures to ensure on-Site fiscal and administrative reviews include procedures over all compliance requirements that are considered direct and material to the Foster Care program. Additionally, we recommend DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should formally document its policy relating to the frequency of on-site monitoring for federal programs.

DCFS Response:

The Department agrees that on-site fiscal and administrative reviews should include procedures that consider all compliance requirements direct and material to the programs funded by the Department and to ensure compliance with contract program plan requirements established for the services approved and being obtained for children. The Department has developed and implemented procedures to address A-133 Findings noted in the sub recipients' OMB Circular A-133 reports. Additional follow up is conducted for each financial finding, programmatic findings are referred to the appropriate division for follow up, and a Decision Memo is issued.

During the next fiscal year, all but one of the 19 major sub-recipients who had not previously received an on-site review will have been visited by DCFS. Future schedules for on-site reviews will prioritize visits to agencies not previously visited, or visited years ago.

The ability of DCFS to conduct more on-site visits each year is dependent upon the Department's ability to hire additional staff, and implement improvements in efficiency. Staff size is dependent on the State's financial position. Proposals to improvements in efficiency must be developed, and evaluated in the field. Therefore, specific projections of the number of on-site fiscal reviews that will be conducted in the future can not be made at this time."

The Department also began initiatives to increase productivity by improving efficiency and increasing the size of its staff. The efforts are on-going, but the resources to implement the changes required are not currently available, therefore, efforts to increase the scope of the department's mission, improve efficiency, improve on-site monitoring tools, and increase the number of on-site visits to sub-recipients, have been adversely affected.

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

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

Program Name: Child Welfare Services – State Grants

CFDA # and Program Expenditures: 93.645 (\$19,746,000)

Award Numbers: G-0801IL1400/G-0701IL1400

Questioned Costs: None

Finding 08-40 Failure to Ensure Timely Preparation of Initial Case Plans

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

The case plan serves as DCFS' written documentation of the services planned for each child taken into protective custody. The case plan describes DCFS' plans to improve or protect the welfare of the child. Information documented in the case plan includes the health and education records of the child, a description of the type of home or institution in which the child is to be placed, DCFS' plan for assuring the child receives safe and proper care and services to improve the condition of the child's home in order to facilitate his or her return home, as well as other pertinent information. Part I of Title IV-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement.

During a review of 50 case files selected for testwork, we noted fifteen of the initial case plans were completed within a range of 1 to 128 days over the 60 day federal requirement.

Part I of Title IV-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. Per 45 CFR 1356.21(g)(2), case plans are required to be developed within a reasonable period, to be determined by the State, but no later than 60 days from the child's removal from their home. Per State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable timeframe as 45 days.

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

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

Recommendation:

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

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DCFS Response:

The Department agrees and continues to stress the importance of adequate and timely documentation for child case files. Based on the fundamentals of good social work practice, requirements of the Council of Accreditation, and Federal Review Outcomes, Illinois has implemented an Integrated Assessment program that includes preparation of a comprehensive service plan where one cannot be completed without the other. A workgroup established a work plan to implement changes to procedures in order to timely prepare service plans and resolve the matters that cause delays as well as provide an on-going monitoring of timeliness. That implementation project is in progress. We continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659 (\$87,313,000)

Award Numbers: 0801IL1407/0701IL1407/0601IL1407

Questioned Costs: Cannot be determined

Finding 08-41 *Failure to Ensure That Adoption Assistance Recertifications Are Performed On A Timely Basis*

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

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

During our review of the eligibility for 40 beneficiaries receiving recurring subsidy payments under the adoption assistance program, we noted 4 instances in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period.

According to 42 USC 673 (a)(4), payments are discontinued when the State determines that the adoptive parents are no longer legally responsible for the support of the child. Parents must keep the State agency informed of circumstances which would make the child ineligible for adoption assistance payments, or eligible for assistance payments in a different amount. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to obtain adoption recertification forms on a timely basis.

In discussing these conditions with DCFS officials, they stated that several efforts to improve and streamline this process have been made, however, adequate systems and staff support had not been available until recently to follow up on missing recertification requests.

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

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Recommendation:

We recommend DCFS implement procedures to ensure recertification forms are received in accordance with the State's established process and maintained in the eligibility files for children receiving recurring adoption assistance benefits.

DCFS Response:

The Department agreed that its recertification procedures needed to be a complete and accurate process of determining any changing needs and/or circumstances within an adoptive family. We recently completed implementation of a project for improving and streamlining the recertification process. In fiscal year 2008, the planning and development the recertification process was centralized in Springfield under the Division of Budget and Finance, Technical Support Unit. This shift required the hiring of two additional data input staff. The first recertification letters were mailed from Springfield location in May 2008 and within three months, the entire process based in the new Springfield location. The new process provides for the sending and tracking of first and second notices. Families that do not respond to either of these notices and require another third form of outreach will be sent to the regional post adoption staff for follow-up.

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For the Year Ended June 30, 2008

State Agency: Illinois Department on Aging (IDOA)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Aging Cluster
CFDA # and Program Expenditures: 93.044/93.045/93.053 (\$43,835,000)
Award Numbers: 08AAILT3SP/08AAILNSIP/07AAILT3SP/07AAILNSIP
Questioned Costs: None

Finding 08-42 *Inadequate On-Site Monitoring of Subrecipients*

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

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

During our testwork over eight subrecipients of the Aging Cluster with total expenditures of approximately \$32,008,000, we noted on-site monitoring procedures had not been performed since 1998 for any the subrecipients selected. Upon further discussion with Agency personnel, we noted fiscal on-site monitoring procedures were only performed for one subrecipient during the year ended June 30, 2008. However, during the fiscal year, IDOA developed an internal control questionnaire that was sent to and completed by each of the thirteen subrecipients. The questionnaire was developed to identify the strengths and weaknesses of the subrecipient's internal control structure and to prepare all subrecipients for the onsite reviews which IDOA plans to start performing in fiscal year 2009. Total awards passed through to subrecipients were approximately \$41,218,000 during the year ended June 30, 2008.

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

In discussing these conditions with IDOA officials, they stated that the Department needed to update its review tool to be consistent with the latest standards outlined in OMB Circular A-133.

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Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the annual area plan. (Finding Code 08-42, 07-40, 06-38, 05-52, 04-38, 03-36)

Recommendation:

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

IDOA Response:

We agree with the audit finding and will begin to perform periodic on-site programmatic and financial reviews of the thirteen Area Agencies on Aging at least once during the three year Area Plan cycle. The Department solicited information from other State Units on Aging from across the nation to determine the frequency of on-site programmatic and financial reviews, the types of documents examined and the instruments used to perform the informal reviews. A review tool has been developed and in-field testing has been completed.

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For the Year Ended June 30, 2008

State Agency: Illinois Department on Aging (IDOA)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Aging Cluster
CFDA # and Program Expenditures: 93.044/93.045/93.053 (\$43,835,000)
Award Numbers: 08AAILT3SP/08AAILNSIP/07AAILT3SP/07AAILNSIP
Questioned Costs: None

Finding 08-43 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOA is not adequately monitoring the OMB Circular A-133 reports submitted by its subrecipients receiving federal awards for the Aging Cluster.

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

During our testwork of eight subrecipients of the Aging Cluster with total expenditures of approximately \$32,008,000, we noted the following regarding the desk review process:

- The expenditures reported by one subrecipient were not reconciled to the schedule of expenditures of federal awards in its OMB Circular A-133 audit report.
- A desk review was not performed for one subrecipient.

Total awards passed through to subrecipients of the Aging Cluster were approximately \$41,218,000 during the year ended June 30, 2008.

According to OMB Circular A-133 ____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated March 2008, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

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In discussing these conditions with IDOA officials, they stated that the missing reconciliation of federal expenditures and the desk review was not completed for this client due to insufficient staffing resources to perform detailed follow-up and review with the subrecipient. Staffing re-allocations are being implemented which will provide the additional resources needed to managing this complicated subrecipient.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-43, 07-41, 06-39)

Recommendation:

We recommend IDOA establish procedures to ensure that desk reviews are performed on a timely basis for all subrecipients and that expenditures reported by the subrecipients are reconciled to the schedule of expenditures of federal awards submitted in the OMB Circular A-133 audit reports.

IDOA Response:

We agree with the audit finding and will complete our review of the singular missing reconciliation of expenditures of federal awards to the OMB Circular A-133 audit report. We will also complete the desk reviews for this same subrecipient in a more timely fashion.

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For the Year Ended June 30, 2008

State Agency: Illinois Department on Aging (IDOA)

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

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053 (\$43,835,000)

Award Numbers: 08AAILT3SP/08AAILNSIP/07AAILT3SP/07AAILNSIP

Questioned Costs: None

Finding 08-44 *Inadequate Cash Management Procedures for Subrecipients*

IDOA does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Aging Cluster program.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. The subrecipients request monthly cash advances based upon estimated accrual expenditures. IDOA will disburse estimated accrual expenditures for the requested period not to exceed 1/12th of the subrecipient's grant award. Each subrecipient is required to maintain the federal funds in an interest bearing account. Upon close out of the grant, the subrecipients certify and remit the interest earned back to IDOA. During our test work we noted IDOA does not reconcile the estimated monthly accrual expenditures to the actual monthly expenditures and does not reduce the cash advance if the subrecipient is showing excess cash on hand. Additionally, IDOA does not have a process in place to determine if the interest remitted is reasonable. During the federal fiscal year ended September 30, 2007, we noted the subrecipients remitted approximately \$217,000 in interest earned on excess federal funds to IDOA.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 45 CFR 92.37 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient's cash position prior to advancing program funds.

In discussing these conditions with IDOA officials, they stated the subrecipients are not able to provide monthly expenditure reporting, therefore, the actual expenditures are reconciled on a quarterly basis.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the US Treasury. (Finding Code 08-44, 07-42, 06-41)

Recommendation:

We recommend IDOA review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis and that the subrecipient interest certified and remitted appears reasonable.

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IDOA Response:

The Area Agency on Aging Monthly Cash Request report was updated in December 2007 to include a quarterly reconciliation of actual versus estimated expenditures in calculating the current month's cash needs. We have worked closely with the Area Agencies on Aging to ensure each monthly cash request is based on the most current spending information available. We will continue to collaborate with the subrecipients to improve our cash management procedures.

Auditors' Comment:

Although IDOA requires subrecipients to reconcile its expenditures each quarter, this information was not considered at the time IDOA advanced funds to its subrecipients as evidenced by earnings on excess funds in the amount of \$217,000 being remitted by subrecipients during the fiscal year.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Immunization Grants
CFDA # and Program Expenditures: 93.268 (\$61,525,000)
Award Numbers: 5H23IP522568-05/2H23IP522568-06
Questioned Costs: None

Finding 08-45 *Inadequate Control and Accountability for Vaccines*

IDPH did not adequately control and account for vaccines distributed under its Immunization Grants program.

IDPH receives a majority of its federal Immunization Grants program funding in the form of vaccines (“vaccines in lieu of cash”) which are distributed to medical providers throughout the State. In addition to federal Immunization Grants program, IDPH operates a state funded vaccine program to provide vaccines to individuals who are not eligible for vaccination under the federal program. For the period from July 1, 2007 through May 13, 2008, the State maintained the inventory and was responsible for distributing the vaccines to medical providers. During this period, the vaccines for both the federally funded program and the state funded program were accounted for using the Center for Disease Control and Prevention’s Vaccines Management software (VACMAN). However, IDPH was not able to distinguish between federally funded and state funded vaccines when recording disbursements in VACMAN. As a result, IDPH was not able to identify the amount of federally funded vaccines disbursed from inventory during the period from July 1, 2007 through May 13, 2008. IDPH stated that \$64,141,000 in vaccines were distributed from inventory during this period, of which \$62,794,000 was estimated to be federally funded. Additionally, we were not able to obtain a complete population of federal expenditures during this period to verify vaccines were used for activities allowed under the Immunization Grants program. Accordingly, we are unable to conclude on IDPH’s compliance with regulations applicable to the Immunization Grants program.

According to 45 CFR 92.20(b)(2), grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. The A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure vaccines are used solely for the authorized purposes.

In discussing these conditions with IDPH officials, they stated that vaccine purchases are separated by funding source and documented by CDC. Vaccines are not, however, separated by funding source at the provider level. Vaccines purchased as part of the federal entitlement Vaccines for Children (VFC) program are based on eligibility determined by population estimates provided by CDC and vaccines purchased with federal 317 direct assistance (DA) are utilized as discretionary support to supplement the VFC program.

Failure to properly control and account for vaccines may result in improper usage by ineligible recipients (Finding Code 08-45, 07-43, 06-47)

Recommendation:

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

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IDPH Response:

The department concurs in the finding and recommendation. The IDPH Immunizations Section has maintained a separate inventory tracking system independent of VACMAN in order to document vaccine purchase and distribution transactions by funding source. While vaccines transactions are not tracked separately by funding source at the provider level, aggregate federal and state funded vaccine purchases and distributions are available. Aggregate federal VFC vaccine purchases and subsequent distribution totals are determined based upon eligibility survey estimates provided by the CDC. Discretionary federal 317 DA vaccine purchases are likewise tracked by IDPH in aggregate.

It is important to note that in 2008, all federal Immunizations project grantees transitioned their distribution and inventory operations to a single federal 3rd party distributor contracted by CDC. As a result, the IDPH no longer maintains physical vaccine inventories and all reporting functions related to vaccine allocations, distribution, and inventory tracking are now the responsibility of the federal contractor, McKesson Specialty.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster (93.775/93.777/93.778)
Social Security Block Grant (93.667)
HIV Care Formula Grants (93.917)

CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$6,607,985,000)
93.667 (\$127,372,000)
93.917 (\$33,924,000)

Award Numbers: 05-0705IL5048/05-0805IL5048 (93.775/93.777)
(CFDA Number) 05-0705IL5028/05-0805IL5028 (93.778)
G-0601ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)
6X07HA00013-17-01/1G24HA08494-01-00/2X07HA00013-18-00 (93.917)

Questioned Costs: Cannot be determined

Finding 08-46 Failure to Monitor the Maintenance of Effort Requirement

IDPH did not monitor the HIV Care Formula Grant (HIV) program maintenance of effort (MOE) requirement.

IDPH is the state agency responsible for administering the HIV program. The state is awarded federal funds each year for the HIV program based on a fiscal grant award year (grant year) ended March 31st. As a condition of receiving federal HIV funds, the State is required to maintain a level of “qualified” state funded expenditures for HIV related activities that is equal to or greater than the prior year. IDPH calculates the HIV MOE expenditures on an annual basis in connection with the preparation of the application to participate in the subsequent year’s HIV program. For example, the 2007 grant year MOE expenditures are calculated when IDPH prepares the 2009 grant year application. The HIV MOE expenditures have historically been comprised of state funded programs administered by IDPH, as well as programs administered by the Illinois Department of Human Services (IDHS) and the Illinois Department of Children and Family Services (DCFS).

At the time of our testwork in October 2008, we noted IDPH had not yet calculated the amount of qualifying MOE expenditures for the grant year ended March 31, 2008, nor had they determined whether they equaled or exceeded the MOE expenditures for the prior grant year ended March 31, 2007. We also noted the following in our testing of expenditures reported in the prior year to meet the HIV MOE requirement:

- IDHS expenditures were also claimed for federal reimbursement under the Medicaid Cluster program and Social Services Block Grant (SSBG) program. These expenditures in total were \$21,703,000, \$22,083,000, and \$22,745,000 for the grant years ended March 31, 2006, 2005, and 2004, respectively. The exact dollar amount of the expenditures claimed for each program for the grant years ended March 31, 2006, 2005, and 2004 could not be provided by management. Upon our identification of this noncompliance during the 2008 audit, IDPH subsequently eliminated the Medicaid and SSBG expenditures from the 2007 MOE calculation prior to including in the 2009 grant application.
- DCFS expenditures claimed consist of actual employee salaries and an estimated calculation of the expenditures related to HIV and youth in a placement home. DCFS calculates the estimated expenditures

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to be the number of days an HIV and youth is in a placement home times the average daily rate, since the rate varies based upon the characteristics of the individual.

- DCFS and IDHS expenditures were reported in the improper period. Specifically, DCFS expenditures reported for the grant year ended March 31st included expenditures actually incurred for the State's fiscal year ending on the following June 30th, while IDHS expenditures included expenditures actually incurred for the previous State fiscal year ending June 30th.

Subsequent to our testwork, IDPH provided a schedule in December 2008 of what it believed was the qualifying State maintenance of effort expenditures for the year ended March 31, 2008. However due to the timing of receiving this calculation and the numerous errors identified in the prior year amounts (i.e. base years), we were unable to obtain sufficient and competent audit evidence to allow us to ascertain whether IDPH had complied with the MOE requirement for the HIV program. However, based on discussions with management, we did note that several of the errors and inconsistencies identified above were present in the schedule prepared for the year ended March 31, 2008, including reporting expenditures from other agencies in the improper period.

According to 42 USC 300ff-27(b), the State must provide an accounting of the amount of funds that the State has expended for such services and programs and the State will maintain HIV-related activities at a level that is equal to not less than the level of such expenditures by the State for the 1-year period preceding the fiscal year for which the State is applying for Title II/Part B Funds.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented. Additionally, costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

According to 45 CFR 92.20(a)(2), the fiscal controls of the State must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to monitor compliance with MOE requirements on a timely basis and to ensure expenditures used to satisfy MOE requirements meet the criteria specific to the program for which they are being used.

In discussing these conditions with IDPH officials, they stated that for prior reporting years, representatives from the DCFS and IDHS had been unaware that HIV program expenditures from their respective agencies were either attributed towards MOE requirements for more than one federal award, or were costs claimed for federal reimbursement under the Medicaid entitlement programs.

Failure to properly monitor the MOE requirement may result in claiming expenditures that are inconsistent with the objectives of the federal programs and the State not meeting the HIV MOE requirement. (Finding Code 08-46)

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Recommendation:

We recommend IDPH establish procedures to identify and report MOE expenditures on a timely basis and to ensure federal and state expenditures incurred by other state agencies meet the applicable program regulations and are not claimed or used to meet matching or maintenance of effort requirements under more than one federal program.

IDPH Response:

The department concurs in the finding and recommendation. In the subsequent grant cycle, the Illinois Department of Public Health will assume much more intensive oversight of interagency reporting of MOE expenditures. The greater oversight of other state agency expenditures will ensure that non-IDPH appropriated state expenditures will not be otherwise claimed as MOE expenditures for the federal Social Services Block Grant, nor will state expenditures be claimed for the MOE requirement if those expenditures were eligible for federal Medicaid reimbursements.

In order to ensure better MOE oversight, the IDPH will require each state agency submitting MOE expenditures to IDPH designate specific staff who will respond to IDPH queries and who will attend reconciliation meetings as necessary. IDPH acknowledges that there have been reporting inconsistencies across multiple state agencies due in part to inadequate communication between staffs at state agencies. Subsequently, designated IDPH staff will also ensure that reported MOE expenditures from other state agencies correspond to the appropriate grant reporting periods, thus establishing more effective internal controls of MOE requirements for the HIV Care Formula grants.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: HIV Care Formula Grants
CFDA # and Program Expenditures: 93.917 (\$33,924,000)
Award Numbers: 6X07HA00013-17-01/1G24HA08494-01-00/2X07HA00013-18-00
Questioned Costs: Cannot be determined

Finding 08-47 *Inadequate Process for Determining Client Eligibility*

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

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

During our testwork of benefits provided to HIV beneficiaries, we selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following:

- In seventeen cases, the beneficiary's application indicated the beneficiary had no income. Although the individual's income level was below 400% of the poverty level and IDPH confirmed the individual was not receiving benefits under Medicaid, a determination of Medicaid eligibility had not been performed. As a result, no income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.
- In one case, no recertification (redetermination) of eligibility was performed during the year.
- In one case, the beneficiary file was destroyed prior to the audit. Upon further discussion with management, this occurred because it is IDPH's procedure to destroy files for deceased beneficiaries at the time of termination of services.

Additionally, we noted IDPH only recertifies (redetermines) eligibility of beneficiaries on an annual basis, instead of every six months as required by program requirements.

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According to US Code 42 USC 300ff-26(b), an individual receiving benefits under the HIV program is required to 1) have a medical diagnosis of the HIV disease and 2) be a low-income individual as defined by the State. According to the Notice of Grant Award for the HIV program dated March 30, 2007, IDPH is required to implement a recertification process, at a minimum, every six months to ensure the program only serves eligible clients. According to 45 CFR 92.42(b)(1), except as otherwise provided, grantees must maintain records for a period of at least three years.

Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to collect and maintain adequate documentation to support eligibility determinations and recertifying the eligibility of beneficiaries every six months.

In discussing these conditions with IDPH officials, they stated that sound public health policy dictates presumptive eligibility for ADAP.

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 Code 08-47, 07-46, 06-43, 05-54, 04-40)

Recommendation:

We recommend IDPH implement procedures to:

- Verify income and insurance information with third party sources (i.e. employers, third party insurers, etc.) and other state agencies,
- Perform recertifications of eligibility every six months, and
- Maintain records in accordance with federal regulations.

IDPH Response:

The department concurs in the finding and recommendation. ADAP staff conducts regular monthly Medicaid enrollment verification with the Illinois Department of Healthcare and Family Services to ensure that ADAP clients are not dually enrolled. IDPH believes that Medicaid enrollment, not Medicaid eligibility, should be the appropriate criterion for determining a beneficiary's eligibility for ADAP which ensures that needed medicines are provided to clients at the earliest opportunity. ADAP staff will also ensure that recertifications will occur every six months.

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State Agency: Illinois Department of Public Health (IDPH)

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

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

CFDA # and Program Expenditures: 93.283 (\$13,387,000)
93.917 (\$33,924,000)

Award Numbers: Various (92.268)
(CFDA Number) 6X07HA00013-17-01/1G24HA08494-01-00/2X07HA00013-18-00 (93.917)

Questioned Costs: None

Finding 08-48 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

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

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

During our testwork over 30 subrecipients of the CDC Investigations and Technical Assistance program and 8 subrecipients of the HIV program, we noted the following:

- There were three subrecipients of the CDC Investigations and Technical Assistance program and two subrecipients of the HIV program for which no OMB Circular A-133 audit reports were received. The subrecipient files did not contain any evidence that follow up procedures were performed by IDPH to obtain the missing reports.
- There were five subrecipients of the CDC Investigations and Technical Assistance Program and one subrecipient of the HIV program whose A-133 reports were not obtained within the required nine months after the subrecipients year end, and there was no evidence of follow procedures performed by IDPH. Specifically, these reports were received between 6 and 100 days after the nine month requirement.

Additionally, a standard checklist was not used to document the review of subrecipient A-133 reports to determine whether: (1) the audit reports met the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

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Subrecipient expenditures under the federal programs for the year ended June 30, 2008 were as follows:

Program	Total Fiscal Year 2008 Subrecipient Expenditures	Total Fiscal Year 2008 Program Expenditures	Percentage
CDC Investigations and Technical Assistance Program	\$5,871,000	\$13,387,000	44.8%
HIV	\$7,135,000	\$33,924,000	21.1%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated March 2008, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDPH officials, they stated that staff shortages have limited their ability to meet these requirements.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-48, 07-45, 06-46, 05-56)

Recommendation:

We recommend IDPH establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. Additionally, desk reviews of A-133 audit reports should be formally documented using the A-133 desk review checklist which include procedures to determine whether the audit reports meet the audit requirements of OMB Circular A-133, federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records, and Type A programs are audited at least once every three years.

IDPH Response:

The department concurs in the finding and recommendation. The Division of Accounting Services does notify the subrecipient in writing to submit their A-133 to the department. If the subrecipient is not required to have an A-133 Single Audit completed, they are instructed to submit this to the department in writing. If the department does not receive any documentation, the subrecipient is contacted by phone. Reports are being reviewed for proper documentation and if related findings to the department are found, the audit is

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referred to the appropriate program office for follow-up with the subrecipient. Accounting Services will also contact other sister agencies to request copies of audits, they may have received before the department, so audits may be reviewed within the time frame.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Centers for Disease Control and Prevention – Investigations and Technical Assistance
CFDA # and Program Expenditures: 93.283 (\$13,387,000)
Award Numbers: Various
Questioned Costs: None

Finding 08-49 *Inadequate On-Site Monitoring of Subrecipients*

IDPH is not adequately performing on-site monitoring of subrecipients receiving federal awards under the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance) Program.

IDPH monitors subrecipients of the CDC Investigations and Technical Assistance program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a quarterly basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of the subrecipients. Additionally, during our testwork of 30 subrecipients of the CDC Investigations and Technical Assistance program, we noted one subrecipient was not subject to a regular on-site programmatic review. Total subrecipient expenditures for the CDC Investigations and Technical Assistance program were \$5,871,000 during the year ended June 30, 2008.

In accordance with the OMB Circular A-133 Compliance Supplement, dated March 2008, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with IDPH officials, they stated staffing shortages continue to hamper some routine monitoring efforts.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 08-49, 07-44, 06-44, 05-55, 04-42)

Recommendation:

We recommend IDPH revise the on-site monitoring procedures for the CDC Investigations and Technical Assistance program to include procedures to review the subrecipient's fiscal and administrative capabilities. IDPH should also evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes.

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IDPH Response:

The Department concurs in the finding and recommendation. Although staffing shortages may be a given and certainly contribute to the finding, it is nonetheless important to monitor our subrecipients and fulfill its required federal grant oversight function. The Department will continue to review these responsibilities and important improvements in the subrecipient review process.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Centers for Disease Control and Prevention – Investigations and Technical Assistance
CFDA # and Program Expenditures: 93.283 (\$13,387,000)
Award Numbers: Various
Questioned Costs: None

Finding 08-50 *Inadequate Cash Management Procedures for Subrecipients*

IDPH provided funds to subrecipients of the Center for Disease Control and Prevention—Investigation and Technical Assistance (CDC – Investigation and Technical Assistance) program in excess of their immediate cash needs.

During our testwork over 60 payments to subrecipients totaling \$1,739,000, we noted 8 payments tested totaling \$277,600 resulted in advances to subrecipients of more than 30 days of funding needs. The number of days advanced ranged from 90 to 360 days. Additionally, we noted IDPH does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Center for Disease Control and Prevention—Investigation and Technical Assistance (CDC – Investigation and Technical Assistance) program. Total payments to subrecipients of the CDC – Investigation and Technical Assistance program were \$5,871,000 during the year ended June 30, 2008.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 45 CFR 92.37 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted “immediate cash needs” as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of subrecipient’s cash position prior to advancing program funds.

In discussing these conditions with IDPH officials, they stated that they have reduced advances from federal awards but a limited number of small dollar grants were provided an advance payment.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for US Treasury. (Finding Code 08-50, 07-49)

Recommendation:

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

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IDPH Response:

The Department concurs in the finding and recommendation. The grants identified were for small dollar amounts and many of them were processed late in the fiscal year, thus a payment upon execution was most feasible. The Department is aware of the 30 day recommendation and will continue to strive to meet the specifics of that recommendation.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: HIV Care Formula Grants
CFDA # and Program Expenditures: 93.917 (\$33,924,000)
Award Numbers: 6X07HA00013-17-01/1G24HA08494-01-00/2X07HA00013-18-00
Questioned Costs: None

Finding 08-51 *Inadequate Process for Monitoring Interagency Program Expenditures*

IDPH does not have an adequate process for monitoring interagency expenditures used to satisfy the maintenance of effort (MOE) requirement for the HIV Care Formula Grants (HIV) program.

HIV program MOE expenditures are incurred by the Illinois Department of Children and Family Services (DCFS) and the Illinois Department of Human Services (IDHS). As the state agency responsible for administering the HIV program, IDPH has executed an interagency agreement with DCFS and IDHS which require periodic reporting of summary level expenditure information for preparation of the required financial reports. During our testwork over MOE expenditures, we noted IDPH does not perform monitoring procedures to ascertain that the expenditures used to meet the MOE requirement meet the specific criteria applicable to the HIV program.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure expenditures used to satisfy MOE requirements meet the criteria specific to the program for which they are being used.

In discussing these conditions with IDPH officials, they stated that representatives from the DCFS and IDHS had been unaware that expenditures from their respective agencies had been either attributed towards MOE requirements for more than one federal award, or were costs claimed for federal reimbursement under the Medicaid entitlement programs.

Failure to properly monitor interagency expenditures may result in using expenditures that are inconsistent with the objectives of the federal program to meet MOE requirements. (Finding Code 08-51, 07-50, 06-50, 05-59)

Recommendation:

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

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IDPH Response:

The department concurs in the finding and recommendation. IDPH acknowledges that this finding is in large part predicated by the previous MOE finding and thus our response is similar. In the subsequent HIV Care Formula grant cycle, the Illinois Department of Public Health will assume much more intensive oversight of interagency reporting of MOE expenditures. The greater oversight of other state agency expenditures will ensure that non-IDPH did not appropriate state expenditures will not be otherwise claimed as MOE expenditures for the federal Social Services Block Grant, nor will state expenditures be claimed for the MOE requirement if those expenditures were eligible for federal Medicaid reimbursements.

In order to ensure better MOE oversight, the IDPH will require each state agency submitting MOE expenditures to IDPH designate specific staff who will respond to IDPH queries and who will attend reconciliation meetings as necessary. IDPH acknowledges that there have been reporting inconsistencies across multiple state agencies due in part to inadequate communication between staffs at state agencies. Subsequently, designated IDPH staff will also ensure that reported MOE expenditures from other state agencies correspond to the appropriate grant reporting periods, thus establishing more effective internal controls of MOE requirements for the HIV Care Formula grants.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: HIV Care Formula Grants

CFDA # and Program Expenditures: 93.917 (\$33,924,000)

Award Numbers: 6X07HA00013-17-01/1G24HA08494-01-00/2X07HA00013-18-00

Questioned Costs: \$23,495

Finding 08-52 Unallowable Costs Used to Meet HIV Matching Requirement

IDPH did not obtain written approvable as required by the grant agreement for the purchase of a vehicle that was claimed as a matching expenditure under the HIV Care Formula Grants (HIV) program.

The Illinois Department of Public Health (IDPH) is the state agency responsible for administering the HIV program. As a condition of receiving federal HIV funds, the State is required to maintain a match of “qualified” state funded expenditures for programs or services benefiting eligible participants (HIV Matching and MOE requirement). During our testwork over 40 matching expenditures totaling \$1,847,971, we noted one expenditure of \$23,495 was for the purchase of a vehicle for which prior written approval was not obtained from USDHHS. The total amount of matching expenditures claimed by the HIV program was approximately \$28,303,000 during the year ended June 30, 2008.

According to the Notice of Grant Award for the HIV program dated March 30, 2007, funds may not be used for the purchase of vehicles without written approvable by USDHHS. According to 45 CFR 92.24(a)(1), matching expenditures must meet the same criteria for allowable costs incurred by the grantee, subgrantee, or a cost type contractor under the assistance agreement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure the expenditures used to meet the HIV Matching requirement are consistent with the applicable allowable cost criteria.

In discussing these conditions with IDPH officials, they stated this was an oversight.

Failure to obtain prior written approvals for the purchase of vehicles results in unallowable costs and could result in the State not meeting its matching requirement. (Finding Code 08-52)

Recommendation:

We recommend IDPH review the process and procedures in place to identify expenditures to be used to meet the matching requirement and implement changes necessary to ensure only allowable costs are reported.

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IDPH Response:

The department concurs in the finding and recommendation. This purchase, although permitted from the applicable state funded HIV line item, should have been excluded from the maintenance of effort totals.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster
CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$6,607,985,000)
Award Numbers: 05-0705IL5048/05-0805IL5048 (93.775/93.777)
(CFDA Number) 05-0705IL5028/05-0805IL5028 (93.778)
Questioned Costs: None

Finding 08-53 Failure to Investigate Provider Complaints within Required Timeframes

IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required timeframes.

The Office of Health Care within IDPH is responsible for receiving and investigating complaints received against providers of the Medicaid Cluster. State laws require the Office of Health Care to investigate complaints within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt. As the timeframes for complaint investigations included in the State's laws are more stringent than those included in the federal Medicaid regulations, the State timeframes are required to be followed.

During our testwork over 30 complaints filed against Medicaid providers during the year ended June 30, 2008, we identified fourteen complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from 4 to 45 days in excess of required timeframes. We also identified that two additional complaints had not been investigated as of the date our testwork was performed.

According to Section 5010 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, each state is expected to have written policies and procedures to ensure that the appropriate response is taken for each complaint received against providers. Among other things, these policies and procedures are required to include timelines for investigating complaints which are as least a stringent as those included in federal regulations. Section 300.3310 of the Illinois Administrative Code (Title 77 Chapter 1(c)) requires complaints to be investigated within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt.

In discussing these conditions with IDPH officials, they stated that a larger than expected turnover in staff, especially in the Bellwood Regional Office, contributed to several complaints not being initiated in the required timeframes.

Failure to investigate complaints against Medicaid providers within required timeframes may prevent the State from identifying and correcting health and safety violations and from protecting the welfare of Medicaid beneficiaries. (Finding Code 08-53, 07-48)

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Recommendation:

We recommend IDPH review its current process for investigating complaints received against Medicaid providers and consider changes necessary to ensure all complaints are investigated within the timeframes required by State law.

IDPH Response:

The department concurs with the finding and recommendation with regard to several complaints being conducted outside of the required timeframes. The complaints were completed appropriately, just not in the required timeframe. The main reason for the lateness in conducting the noted complaint investigations was that of a continuing staffing shortage in the Bellwood Regional Office. Over the past year, we have hired 10 nurses but loss an additional 4 well trained nurses out of the Bellwood Office, for a net gain of 6 nurses. It is important to note that a new nurse is not able to do surveys on their own for a period of 6-9 months. This is due to the training curve for surveyors and required federal training courses. We will continue to use out of Region staff and overtime to complete complaints in the areas of the State where timeframes for complaints are an issue.

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For the Year Ended June 30, 2008

State Agency: Illinois State Board of Education (ISBE)
Federal Agency: US Department of Education (USDE)
Program Name: Title I Grants to Local Educational Agencies
CFDA # and Program Expenditures: 84.010 (\$547,751,000)
Award Numbers: SA010A050013/ SA010A060013/SA010A070013
Questioned Costs: None

Finding 08-54 *Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability*

ISBE does not take adequate measures to sanction a LEA that did not meet the comparability of services requirement under the Title I Grants to Local Education Agencies (Title I) program.

LEAs must provide educational services for schools receiving Title I funds that are comparable (equal) to those that are not receiving Title I funds within the same school district (“comparability of services”). Based on information provided from a USDE audit and procedures performed during our audit in 2006, we noted one LEA which was not in compliance with comparability of services requirement. Specifically, this LEA appears to have had 16 schools receiving Title I funds that were providing educational services (based on both a teacher to pupil ratio and expenditure to pupil ratio) that are less than schools not receiving Title I funds. As of June 30, 2008, ISBE is still awaiting a response from ED on their program determination on the Inspector General’s 2006 comparability finding relating to the LEA. Our current year audit for 2008 noted that ISBE worked with the LEA to adjust state and local funding to non-comparable schools within the LEA to ensure comparability for the year ended June 30, 2008.

Furthermore, the USDE performed a review of ISBE’s administration of the Title I program during fiscal year 2008, in which they reported that ISBE had not ensured that its LEAs have properly calculated comparability ratios. Specifically, one LEA did not include Title I schools identified as special education, special, alternative, performance or new charter schools in its comparability calculations as is required by federal regulations. This LEA also included improper salary information in the calculation.

Finally, during our testwork of 40 LEAs for comparability in 2008, we noted two LEAs that did not properly complete all of the required comparability forms, and ISBE did not ask them to correct the missing documentation.

Section 1120A(c), of the Elementary and Secondary Education Act states that a subrecipient may receive funds under this part only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each subrecipient must maintain records that are updated biennially, documenting compliance with the comparability requirement. The State Educational Agency is ultimately responsible for ensuring that all subrecipients remain in compliance with the comparability requirement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that the subrecipients

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are effectively monitored in order to ensure they are compliant with the comparability of services requirement.

In discussing these conditions with ISBE officials, they state that this issue was first raised in the U.S. Department of Education (USDE) Office of the Inspector General Report on Comparability issued June 7, 2007. This report states that; "Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act." ISBE must wait to receive the ED determination of corrective action before the Agency can sanction the LEA. The Agency continues to work with the LEA cited in the USDE monitoring report to ensure their comparability compliance. For the two LEAs identified as not properly completing their comparability forms, both district's forms allowed ISBE to determine that they met comparability requirements. It would not be efficient to require the LEAs to submit another form when the portion that was not completed provided no information pertinent to the comparability calculation.

Failure to ensure that LEAs remain in compliance with the comparability of services requirement may result in: 1) an inequitable education for students attending schools receiving Title I funds and 2) unallowable costs. (Finding Code 08-54, 07-52, 06-51)

Recommendation:

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

ISBE Response:

The Agency concurs that the LEA was not comparable and that ISBE did not sanction the LEA. The Agency is awaiting the determination by the USDE Office of Elementary and Secondary Education of the appropriate corrective action to sanction the LEA. Upon receipt of this determination, the Agency will implement the corrective action. ISBE continues to work with the one LEA cited in the USDE monitoring report to ensure their comparability calculation is in compliance with regulations. Regarding the two LEAs identified as not properly completing their comparability forms, ISBE was able to determine these LEAs met comparability requirements based on their submitted forms. It was not considered efficient to require the LEAs to submit additional forms when the portion that was not completed provided no information pertinent to the comparability calculation. Instructions for comparability form completion will be revised for fiscal year 2010.

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State Agency: Illinois State Board of Education (ISBE)
Federal Agency: US Department of Education (USDE)
Program Name: Title I Grants to Local Educational Agencies
Special Education Cluster
Career and Technical Education – Basic Grants to States
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants

CFDA # and Program Expenditures: 84.010 (\$547,751,000)
84.027 / 84.173 (\$488,402,000)
84.048 (\$44,315,000)
84.287 (\$39,613,000)
84.357 (\$31,809,000)
84.367 (\$104,284,000)

Award Numbers: S010A050013/ S010A060013/ S010A070013 (84.010)
(CFDA Number) H027A050072/ H027A060072/ H027A070072 (84.027)
H173A050101/ H173A060101/ H173A070101 (84.173)
V048A050013/ V048A060013/ V048A070013 (84.048)
S287C050013/ S287C060013/ S287C070013 (84.287)
S357A050014/ S357A060014/ S357A070014 (84.357)
S367A050012/ S367A060012/ S367A070012 (84.367)

Questioned Costs: None

Finding 08-55 *Inadequate On-Site Fiscal Monitoring of Subrecipients*

ISBE is not adequately performing on-site fiscal monitoring reviews of subrecipients of the Title I Grants to Local Educational Agencies, Special Education Cluster, Career and Technical Education – Basic Grants to States, Twenty-First Century Community Learning Centers, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

ISBE selects subrecipients of the Education programs to perform on-site fiscal and administrative monitoring procedures using a risk based approach. Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the year (annual, every 2 years, and every 3 years) in which ISBE would perform on-site fiscal and administrative monitoring procedures. These risk assessments are based on the funding level received by the entity, the financial status, the improvement status, any past audit findings, and the type of entity.

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During our audit procedures, we selected a sample of 30 subrecipients from each of the Education programs and noted the following number of subrecipients that were selected for an on-site fiscal and administrative review based on the criteria above for which an actual review was not performed:

Program	Number of Subrecipients Scheduled, but not Reviewed
Title I Grants to Local Education Agencies	15
Special Education Cluster	16
Career and Technical Education – Basic Grants to States	28
Twenty-First Century Community Learning Centers	19
Reading First State Grants State Grants	16
Improving Teacher Quality State Grants	13

Additionally, we noted in both the Special Education Cluster and the Twenty-first Century Community Learning Centers programs, one subrecipient included in our procedures was not included in subrecipient monitoring cycles established by ISBE. Therefore, it appears that ISBE does not have an adequate process for ensuring that all subrecipients are properly evaluated for monitoring purposes.

Finally, we noted the monitoring tools used by ISBE for on-site reviews of subrecipients do not include any procedures designed to ensure 1) compliance with providing access to federal funding for new or significantly expanded charter schools, and 2) accuracy of information reported by the LEAs that is used by ISBE in the calculation of adequate yearly progress in order to properly identify LEAs and schools in need of improvement.

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

In discussing these conditions with ISBE officials, they stated that when the initial three-year monitoring plan was established, External Assurance had a staff of approximately 30 personnel. Less than 15 External Assurance staff was available to perform fiscal year 2008 monitoring. This reduction in staffing levels prevented the entire monitoring plan from being accomplished for fiscal year 2008. The monitoring instrument was modified for the fiscal year 2009 cycle to include charter school review, after the auditors cited this deficiency in Spring 2008, too late to modify the instrument for the 2008 monitoring cycle.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-55, 07-53)

Recommendation:

We recommend ISBE evaluate the current staffing of the External Assurance Department to ensure resources are allocated to perform this function. We also recommend ISBE re-evaluate its selection method for determining which subrecipients to perform on-site reviews to ensure that all subrecipients are properly considered when developing the monitoring plan. Finally, ISBE review and update its monitoring instruments to ensure they include procedures for all direct and material compliance requirements.

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ISBE Response:

The Agency agrees that not all scheduled on-site monitoring visits in the fiscal year 2008 monitoring plan occurred. The Agency is working to fill External Assurance vacancies and is seeking additional staff for the External Assurance monitoring function. External Assurance developed a new multi-year monitoring schedule for the monitoring cycle beginning in fiscal year 2009. The cycle for monitoring coverage of subrecipients was extended to five years to allow the plan to be completed with limited staffing levels. The fiscal year 2009 monitoring plan prioritizes high-risk districts that were included in the fiscal year 2008 monitoring schedule but not completed. The monitoring instrument was modified for the fiscal year 2009 cycle to include charter school review, after the auditors cited this deficiency in Spring 2008, too late to modify the instrument for the 2008 monitoring cycle.

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For the Year Ended June 30, 2008

State Agency: Illinois State Board of Education (ISBE)
Federal Agency: US Department of Education (USDE)
Program Name: Title I Grants to Local Educational Agencies
 Improving Teacher Quality State Grants
CFDA # and Program Expenditures: 84.010 (\$547,751,000)
 84.367 (\$104,284,000)
Award Numbers: S010A050013/ S010A060013/ S010A070013 (84.010)
 (CFDA Number) S367A050012/ S367A060012/ S367A070012 (84.367)
Questioned Costs: None

Finding 08-56 Inadequate On-Site Programmatic Monitoring of Subrecipients

ISBE is not adequately performing on-site programmatic monitoring reviews of subrecipients of the Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants programs.

On-site programmatic reviews for subrecipients of the Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants programs are performed by the External Assurance Department of ISBE in conjunction with the fiscal and administrative reviews. ISBE selects subrecipients in these programs to perform on-site monitoring using a method which combines elements of both cyclical and risk based approaches. This approach is designed to result in all subrecipients being reviewed on an annual, every 2 year or every 3 year cycle, and all programs being reviewed at least once every six years.

Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the year (annual, every 2 year, and every 3 year) in which ISBE would perform on-site monitoring procedures. These risk assessments are based on the funding level received by the entity, the financial status, the improvement status, any past audit findings, and the type of entity.

Additionally, ISBE officials stated that risk assessments for each program are performed based on the nature of the program (i.e. certain programs are considered higher risk), prior A-133 Findings, and information received from internal and external sources. Based on this analysis, each program is placed into a risk level category (low, medium, and high) that dictates the year (annual, every 3 year, every 6 year) in which ISBE would perform on-site monitoring procedures over the specific program.

During our audit, we selected a sample of 30 subrecipients for both Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants and noted the following number of subrecipients that were selected for an on-site fiscal and administrative review based on the criteria above for which an actual review was not performed:

Program	Total Number of Subrecipients Schedule, but not Reviewed
Title I Grants to Local Educational Agencies	15
Improving Teacher Quality State Grants	13

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Additionally, the USDE performed a review of ISBE's administration of the Title I Grants to Local Education Agencies and Improving Teacher Quality State Grants programs. During this review, USDE identified several instances of noncompliance with program regulations at the subrecipient level, which have been attributed to deficiencies in ISBE's monitoring procedures for subrecipients of these programs. These instances of non-compliance at the subrecipient level were noted in the following areas:

- parental involvement,
- parental notification of school choice
- the provision of supplemental educational services
- the administration of schoolwide programs,
- compliance with earmarking requirements relating to choice-related transportation and parental involvement at private schools,
- services for private school children,
- compliance with supplement not supplant requirements, and
- the use of non-highly qualified teachers.

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

In discussing these conditions with ISBE officials, they stated that when the initial three-year monitoring plan was established, External Assurance had a staff of approximately 30 personnel. Less than 15 External Assurance staff was available to perform fiscal year 2008 monitoring. This reduction in staffing levels prevented the entire monitoring plan from being accomplished for fiscal year 2008.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-56, 07-54)

Recommendation:

We recommend ISBE evaluate the current staffing of the external assurance department to ensure resources are allocated to perform this function. We also recommend ISBE update its monitoring instruments (programs) to ensure that the subrecipients' compliance with certain program requirements is properly monitored and documented.

ISBE Response:

The Agency agrees that not all scheduled on-site monitoring visits in the fiscal year 2008 monitoring plan occurred. The Agency is working to fill External Assurance vacancies and is seeking additional staff for the External Assurance monitoring function. External Assurance developed a new multi-year monitoring schedule for the monitoring cycle beginning in fiscal year 2009. The cycle for monitoring coverage of subrecipients was extended to five years to allow the plan to be completed with limited staffing levels. The fiscal year 2009 monitoring plan prioritizes high-risk districts that were included in the fiscal year 2008 monitoring schedule but not completed.

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The Agency notes that compensating controls are provided through the No Child Left Behind consolidated grant application process. The consolidated application is set up to ensure subrecipients are compliant with program requirements for Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants.

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For the Year Ended June 30, 2008

State Agency: Illinois State Board of Education (ISBE)
Federal Agency: US Department of Education (USDE)
Program Name: Special Education Cluster
CFDA # and Program Expenditures: 84.027/84.173 (\$488,402,000)

Award Numbers: H027A050072/ H027A060072/ H027A070072 (84.027)
(CFDA Number) H173A050101/ H173A060101/ H173A070101 (84.173)

Questioned Costs: None

Finding 08-57 *Inadequate Monitoring of Maintenance of Effort Requirement*

ISBE is not properly monitoring the maintenance of effort (MOE) requirement for the Special Education Cluster.

As a condition of receiving federal funds under the Special Education Cluster, the State is required to maintain a level of “qualified” state funded expenditures for special education and related services for children with disabilities that is equal to or greater than the prior year. During a review of the Special Education Cluster performed by the USDE Office of Inspector General in July 2008, it was determined that ISBE was using budgetary amounts (appropriations) rather than actual expenditures when monitoring its compliance with the MOE requirement (i.e. comparing fiscal year 2007 appropriations to fiscal year 2008 appropriations). ISBE subsequently recalculated the MOE requirements based on actual expenditures for both fiscal years 2007 and 2008 which demonstrated the State was in compliance with the MOE requirement for the year ended June 30, 2008.

According to 34 CFR 300.163(a), the State must not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure that the calculation of the maintenance of effort requirements is accurate. Effective internal controls should include procedures to properly monitor compliance with MOE requirements based on actual expenditures.

In discussing these conditions with ISBE officials, they stated that this issue was first raised by the U.S. Department of Education Office of the Inspector General auditors during their review of the Special Education Cluster that started July 2008. The U.S. Department of Education provides limited guidance on the meaning of “State Financial Support” in terms of 34 CFR 300.163(a) for making the determination that a State has met Special Education Maintenance of Effort requirement. The federal auditors acknowledged that State financial support is subject to interpretation and they checked with their Regional Office to ensure their interpretation was correct. ISBE understands the expenditure basis cited by the USDE Office of the Inspector General auditors and immediately recalculated State-level MOE based on their finding. ISBE met the State-level Maintenance of Effort requirement under both interpretations.

Failure to properly monitor the MOE requirement may result in claiming expenditures that are inconsistent with the objectives of the federal programs and the State not meeting the Special Education Cluster MOE requirement. (Finding Code 08-57)

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Recommendation:

We recommend ISBE establish procedures to monitor the MOE requirement based on actual expenditures.

ISBE Response:

The Agency does not agree that it did not adequately monitor the State-level Maintenance of Effort requirement. The issue in this finding is with the interpretation of the meaning of “State financial support” in determining whether Maintenance of Effort requirements, for which the USDE provides very limited guidance, are met. It is reasonable that the starting point for monitoring the Maintenance of Effort requirement would be properly based on appropriation figures. Based on discussions with the USDE Office of Inspector General auditors, ISBE will utilize the auditors’ interpretation in making a final determination on meeting the Maintenance of Effort requirement, utilizing expenditure figures. The Agency notes that it met the MOE requirements utilizing both appropriation and expenditure figures.

Auditors’ Comment:

As stated in the finding above, ISBE was improperly using budgetary amounts instead of actual amounts when monitoring its compliance with the Maintenance of Effort (MOE) requirement. The MOE requirement must be measured using actual expenditures.

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For the Year Ended June 30, 2008

State Agency: Illinois Community College Board (ICCB)
Federal Agency: US Department of Education (USDE)
Program Name: Career and Technical Education – Basic Grants to States
CFDA # and Program Expenditures: 84.048 (\$44,315,000)
Award Numbers: V048A050013/ V048A060013/ V048A070013
Questioned Costs: None

Finding 08-58 *Failure to Perform On-Site Fiscal Monitoring of Subrecipients*

ICCB did not perform on-site fiscal monitoring reviews of subrecipients receiving federal awards under the Career and Technical Education – Basic Grants to States (Perkins IV) program.

The Illinois State Board of Education provided ICCB with an interagency grant of \$17,322,086 to establish Career and Technical Education programs at community colleges throughout the State of Illinois.

ICCB selects subrecipients of the Career and Technical Education Program to perform on-site monitoring reviews using a five year cycle, established in 2005. However, we noted ICCB did not perform any on-site reviews during the year ended June 30, 2008.

Total federal awards passed through to subrecipients of the Career and Technical Education program was \$16,997,965 during the year ended June 30, 2008.

In accordance with CFR Title 34, Subpart C, Section 80.40, grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity.

In discussing these conditions with ICCB officials, they stated that all of the planned subrecipients that were scheduled to be reviewed in 2008 for fiscal on-site reviews, were moved to 2009 due to agency reorganization and the resulting staff adjustments and timing difficulties.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 08-58)

Recommendation:

We recommend ICCB perform on-site monitoring of its subrecipients in accordance with its established monitoring plan.

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For the Year Ended June 30, 2008

ICCB Response:

The ICCB underwent an agency reorganization during the fall of 2007 at which time the staff assigned to conduct on-site fiscal and administrative monitoring activities was reassigned to other agency duties. A new staff person was hired on August 1, 2008, and that will allow the agency to resume on-site fiscal and administrative monitoring activities. The ICCB staff have developed, as demonstrated in its prior fiscal year fiscal monitoring activities, a monitoring process (and instrument) and will resume its monitoring to ensure that all subrecipients are monitored during the 2006-2010 five year visit schedule.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Community College Board (ICCB)
Federal Agency: US Department of Education (USDE)
Program Name: Career and Technical Education – Basic Grants to States
CFDA # and Program Expenditures: 84.048 (\$44,315,000)
Award Numbers: V048A050013/ V048A060013/ V048A070013
Questioned Costs: None

Finding 08-59 *Inadequate Documentation of Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

ICCB is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients of the Career and Technical Education – Basic Grants to States (post-secondary education) program.

ICCB receives OMB Circular A-133 audit reports from subrecipients who expend \$500,000 or more of federal awards in their fiscal year. ICCB reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, ICCB completes a checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, no documentation exists to support that:

- ICCB performs a thorough “desk review” of the report to determine whether the audits were performed in accordance with OMB Circular A-133.
- The federal funds reported in the schedule of expenditures of federal awards reconciles to funding notifications.
- ICCB program grants that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years.

Total federal awards passed through to subrecipients of the Career and Technical Education program was \$16,997,965 during the year ended June 30, 2008.

According to OMB Circular A-133 §____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that project goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated March 2008, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period, 2) issue a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the app-through entity shall take appropriate action using sanctions. According to 34 CFR Sections 80.40 and 80.42, ICCB is required to have an effective internal control structure in place to ensure proper monitoring of subrecipients.

In discussing these conditions with ICCB officials, they stated they have an A-133 checklist but will update it to include the additional items.

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For the Year Ended June 30, 2008

Failure to adequately obtain, review, and perform follow-up procedures on subrecipient OMB Circular A-133 audit reports could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement.(Finding code 08-59, 07-56, 06-54)

Recommendation:

We recommend ICCB:

- Update its checklist to include additional criteria to ensure that a sufficient review is performed over the reports,
- Establish a process for updating the subrecipients files with the results of the findings follow-up review, and
- Require its subrecipients to certify that less than \$500,000 was expended in total federal awards if an OMB A-133 audit report is not submitted.

ICCB Response:

The ICCB has updated its A-133 checklist to reflect the recommendations of the auditors. We have asked all providers not subject to A-133 to submit information regarding expenditures.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Community College Board (ICCB)
Federal Agency: US Department of Education (USDE)
Program Name: Career and Technical Education – Basic Grants to States
CFDA # and Program Expenditures: 84.048 (\$44,315,000)
Award Numbers: V048A050013/ V048A060013/ V048A070013
Questioned Costs: None

Finding 08-60 *Inadequate Cash Management Procedures for Subrecipients*

ICCB does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Career and Technical Education – Basic Grants to States program.

ICCB passes through federal funding to community colleges (subrecipients) throughout the State to establish career and technical education programs. A payment schedule, (i.e. monthly or quarterly, or upon request), is established by the subrecipients and ICCB during the grant application and budgeting process. ICCB makes payments to the subrecipients based upon the established payment schedule. During our testwork, we noted ICCB is not monitoring the cash position of the subrecipients throughout the year to ensure that the subrecipients do not have excess federal cash on-hand at the time of each payment.

Total federal awards passed through to subrecipients of the Career and Technical Education program was \$16,997,965 during the year ended June 30, 2008.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 34 CFR 80.37 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted “immediate cash needs” as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient’s cash position prior to advancing program funds.

In discussing these conditions with ICCB officials, they stated the payment schedule was adequate but will review the process.

Failure to monitor the cash position of subrecipients could result in advances in excess of 30 days cash needs and in additional costs of financing for the US Treasury. (Finding Code 08-60)

Recommendation:

We recommend ICCB establish procedures to monitor the cash position of subrecipients. These procedures should be designed to ensure subrecipients receive no more than 30 days of funding on an advance basis.

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ICCB Response:

The ICCB is developing a cash management system which will ensure subrecipients receive no more than 30 days of funding on an advance basis. The ICCB anticipates the system being implemented with the Fiscal Year 2010 grant funds.

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For the Year Ended June 30, 2008

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$222,123,000)

Award Numbers: None

Questioned Costs: None

Finding 08-61 *Untimely Deposits into the Federal Fund*

ISAC does not deposit the federal share of borrower payments into the federal fund within the required 48 hours.

ISAC receives payments on defaulted loans directly from borrowers and indirectly through outside collection agencies. Borrower payments received by outside collection attorneys are generally remitted to ISAC bi-weekly which extends the period between receipts of the borrower payments (received from outside collection agencies) and deposited into the federal fund. During our testwork over 30 borrower payments, we noted 3 instances where borrower payments were not deposited into the federal fund within the required 48 hours. The delays were approximately 1 to 20 days. ISAC is aware of the delay, and, as a result, calculates interest on funds remitted outside of the 48 hour requirement. During the year ended June 30, 2008, ISAC transferred approximately \$14,000 from the operating fund to the federal fund as interest payments on untimely remittances.

In accordance with 34 CFR section 682.419(b)(6)), the guaranty agency is required to deposit into its Federal Fund all funds received on loans on which a claim has been paid, including default collections, within 48 hours of receipt of those funds, minus any portion that the agency is authorized to deposit into the Operating Fund. Forty-eight hours means two business days. "Receipt of Funds" means actual receipt of funds by the guaranty agency or its agent, whichever is earlier.

In discussing these conditions with ISAC officials, they stated that delays in receipt of borrower payments from outside legal collection agencies were the reason for non-compliance with the 48-hour rule.

Failure to make deposits into the federal fund within the required time frame could result in lost interest earnings to the federal fund. (Finding Code 08-61, 07-59, 06-58, 05-71)

Recommendation:

We recommend ISAC establish procedures to ensure borrower payments from outside collection attorneys are received on a timely basis.

ISAC Response:

ISAC has thoroughly evaluated its deposit process and is working with the outside legal collection agencies to reduce processing time for remitting collections into the Federal Fund. In addition, ISAC continues to transfer

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interest on a monthly basis for those deposits that fall outside the 48-hour deposit period into the Federal Fund.

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State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$222,123,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 08-62 *Inadequate Process for Assignment of Defaulted Loans*

ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in 34 CFR 682.409 are assigned to the USDE.

ISAC is required to assign all defaulted loans that meet certain criteria as described below as of April 15th of each year to the USDE. During our audit of the Federal Family Education Loan Program, we noted there were approximately 6,353 defaulted loans that meet these criteria as of May 23, 2008 that should have been assigned to the USDE but were not. Management indicated it was their practice to only assign approximately 10,000 loans per year.

According to 34 CFR 682.409(a)(1), unless the Secretary notifies an agency, in writing, that other loans must be assigned to the Secretary, an agency must assign any loan that meets all of the following criteria as of April 15 of each year:

- i. The unpaid principal balance is at least \$100.
- ii. For each of the two fiscal years following the fiscal year in which these regulations are effective, the loan, and any other loans held by the agency for that borrower, have been held by the agency for at least four years; for any subsequent fiscal year such loan must have been held by the agency for at least five years.
- iii. A payment has not been received on the loan in the last year.
- iv. A judgment has not been entered on the loan against the borrower.

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

Failure to assign loans to the USDE results in ISAC's noncompliance with federal regulations. (Finding Code 08-62, 07- 60, 06-59, 05-72, 04-54)

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Recommendation:

We recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in 34 CFR 682.409 or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE.

ISAC Response:

ISAC continues to monitor loans eligible for assignment and is seeking to assign all defaulted loans meeting the criteria stated in the Department of Education regulations. ISAC has completed the task of assigning the 10,000 loans in 2007. During 2008, ISAC was monitoring and assigning accounts to the Department of Education to comply with requirements. On May 1, 2008 the Department of Education placed a moratorium on the assignment of accounts to them. This moratorium is still in effect.

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For the Year Ended June 30, 2008

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$ 222,123,000)

Award Numbers: None

Questioned Costs: \$51,666

Finding 08-63 *Inaccurate Guaranty Agency Annual Financial Reporting*

ISAC did not accurately report the amount of federal consolidation loans cancelled as of September 30, 2007 in the Guaranty Agency Annual Financial Report (Form 2000).

ISAC is required to submit loan-level detail data to the NSLDS (National Student Loan Data System). This information is reported on the Forms 2000 report in the following four categories – Loans Guaranteed (except consolidation), All Loans Cancelled, (except consolidation), Federal Consolidation Loans Guaranteed, and Federal Consolidation, all loans cancelled on the Annual Forms 2000 report. During our testwork over 30 federal consolidation cancellation loans selected from the NSLDS extract, we noted two instances in which the cancellation amounts included in the Forms 2000 report did not agree to the guaranty loan subsidiary ledger (guaranty system), resulting in an understatement of Federal Consolidated Loans Cancelled category of approximately \$27,000. As a result of these findings, ISAC reviewed the query used to calculate the Federal consolidation loans cancelled noting an error in the query. Based on an adjusted query, ISAC determined the amount of federal consolidation loans cancelled as reported on the September 30, 2007 Forms 2000 report was understated by \$974,000. Additionally, as this information is used to calculate the account maintenance fee earned by ISAC for the year ended September 30, 2007, this understatement resulted in a potential overpayment of the account maintenance fees of approximately \$51,666.

According to 34 CFR Section 682.414(b), a guaranty agency shall accurately complete and submit to the Secretary a report concerning the status of the agency's reserve fund and the operation of the agency's loan guarantee program at the time and in the manner that the Secretary may reasonably require. The Secretary does not pay the agency any funds, the amounts of which are determined by reference to data in the report, until a complete and accurate report is received. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that the information included in reports to the USDE is accurate and is supported by underlying information at the Agency.

In discussing these conditions with ISAC officials, they stated the variances identified for federal consolidation loans were related to a query used for Form 2000 reporting process. The query erroneously calculated the cancellation of federal consolidation by subtracting the total disbursement amount from the original guarantee amount.

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Failure to accurately report loan information to the USDE could result in an incorrect calculation of fees earned by ISAC. (Finding Code 08-63)

Recommendation:

We recommend ISAC review its policies and procedures in order to ensure that there are appropriate processes in place to ensure that the Forms 2000 report is accurate.

ISAC Response:

ISAC has corrected the error in the loan cancellation logic being applied to loans in National Student Loan Data System (NSLDS) processing. The correction was implemented for ISAC's October 2008 month end submission to NSLDS.

ISAC agrees that a reconciliation of NSLDS data and the Forms 2000 report is a useful practice to ensure reporting accuracy. Procedures are in place to review the Annual Reasonability report provided by the USDE.

The Annual Reasonability report provides ISAC the ability to compare loan level data in NSLDS to the summary level data reported on the Forms 2000 report for select attributes. The report is a gauge to identify areas where there may be reporting issues on either the NSLDS or Forms 2000 reporting sides or in some cases both.

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For the Year Ended June 30, 2008

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$222,123,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 08-64 *Inadequate Process to Verify Unreported Loans*

ISAC does not have an adequate process to verify unreported loans.

ISAC maintains loan level information in its guaranty loan subsidiary ledger (guaranty system) for all loans guaranteed by ISAC through the Federal Family Education Loans program. This information is reported to the National Student Loan Data System (NSLDS). The information in the guaranty system is updated by lenders primarily through an electronic lender manifest (update file) submitted to ISAC on a quarterly basis.

In addition to lender manifests, ISAC has additional processes in place to identify and adjust the guaranty system records for loans with no activity reported from lenders. The first process is the “presumed paid” process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have been in repayment status for twelve years, and that have not been updated through any lender reporting in the past four years. These criteria are consistent with criteria established by the USDE for identifying loans that have been presumed paid. The status of these loans is then changed from repayment to paid in full, and reported as such to the National Student Loans Data Service (NSLDS).

The second process is called the “unreported loans” process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have not been updated through the lender manifest reporting process during the previous 180 days. Any loans included on this listing are sent to the lenders with instructions to review the loan information and update as appropriate in the next lender manifest. However, ISAC has limited means to follow-up with the lenders to verify that the lenders have made the appropriate changes. The primary mechanism available to ISAC is the bi-annual compliance reviews of the lenders performed by ISAC personnel, in which the status of the unreported loans list is noted.

During our testwork over the accuracy of the loan information included in the guaranty system, we selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender and noted the following exceptions:

- For one loan, we were unable to obtain confirmation of any of the loan information. Upon further review, it was determined both the original guaranty agency and lender have gone out of business, and the borrower social security number (SSN) information in ISAC’s guaranty system is a “dummy” (assigned) SSN established by ISAC when the loan was originally transferred to ISAC (because the actual SSN could not be determined). Additionally, there has been no activity reported on the loan since 1988. This loan should have been identified by ISAC as a “presumed paid” loan and excluded from ISAC’s balance

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of loans in repayment status. It was subsequently determined that ISAC was improperly excluding loans with invalid information, such as a social security number, from the semi-annual report to identify loans that have been presumed to be paid. ISAC officials subsequently ran a modified report to identify all loans that met the presumed paid criteria and identified approximately 740 loans totaling \$2.0 million that should no longer be reported as loans in repayment status.

- For two loans in our sample, the lender indicated the loans had been paid in full through consolidation in July 2004 and July 2006, respectively. Upon further review, the loan information had not been updated by the lenders since May 15, 2004 and August 19, 2006, respectively. We noted that both of these loans were included in November 2007 and May 2008 “unreported loans” report provided to lenders. However, no follow up was performed to ISAC to determine whether the lenders properly investigated the status of these loans.

In accordance with 34 CFR Section 682.404(a)(4) and (b)(4)((ii)(G)(3) and (c), a guaranty agency shall accurately complete and submit to the Secretary Form 2000 report as the Secretary uses the ED Form 2000 report for the previous September 30 to calculate the amount of loans in repayment at the end of the preceding fiscal year.

In discussing these conditions with ISAC officials, they state when the presumed paid logic was first developed it did not take into consideration the NSLDS requirement to report assigned/“dummy” SSNs in a specific format. Therefore, the presumed paid logic was not applied to these loans with assigned SSNs. In discussing the unreported loans process with ISAC officials, they state that there is not a federal requirement for lenders to respond to the unreported loans report. The industry standard requests that lenders review the loans on the report and make the necessary corrections to ensure that those unreported loans are included in the lender’s next monthly lender manifest submission.

An inadequate process to verify loan information in the guaranty system could result in inaccurate reporting to the NSLDS (Finding Code 08-64)

Recommendation:

We recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS.

ISAC Response:

Presumed Paid Process - ISAC agrees that loans with assigned/“dummy” SSNs should not be excluded from the presumed paid process. Staff have responded to this omission in the presumed paid logic. Correct logic is being testing and will be implemented in May 2009 to include loans with assigned/‘dummy’ SSNs in this process.

Unreported Loans Process - Regarding follow up with lenders as to their updating of unreported loans, it is important to note that ISAC’s Compliance staff includes the unreported loans report as part of regularly scheduled lender reviews.

In addition, because ISAC recognizes the importance of obtaining accurate and timely data from its lenders, a new procedure is being implemented in May 2009 to work with lenders on their unreported loans. This new procedure is described below.

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Unreported Loans Follow Up

Beginning with the May 2009 Unreported Loans cycle, Lender Services will make follow up contact with lenders to determine their progress on resolving reporting issues for loans sent to them on the NSLDS Lender Manifest Report of Unreported Loans.

- 60-days following the distribution of the report - e-mail sent to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.
- 120-days following the distribution of the report - spot check loan updates and lender manifest submission for loans on the report. Phone call to lenders with little or no progress. Provide assistance where applicable.
- 150 days or 30 days prior to next Unreported loan report - e-message to make sure reporting loans and that issues for loans on the last report were resolved as a new Unreported report is upcoming.
- Specific agenda item for Lender Manifest -Unreported Loans on all Loan Partner Conference Calls.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855

Questioned Costs: Cannot be determined

Finding 08-65 *Failure to Obtain Refusal to Work Certifications*

IDES does not obtain continuing certifications that claimants have not refused suitable work offers throughout the eligibility period prior to the payment of benefits under the Unemployment Insurance (UI) Program.

The UI program administered by IDES provides benefits to eligible individuals that are unemployed and able and available to work. The structure of the Federal-State UI Program partnership is based upon Federal law; however it is implemented through State law, specifically in Chapter 820, Act 405 of the Illinois Compiled Statutes (ILCS). IDES has also developed a comprehensive policies and procedures manual available on their intranet to all employees to allow for the consistent and proper administration of the UI program. According to these policies and procedures, a claimant is required to complete an application for benefits which includes, among other things, an initial certification that the claimant has not refused any suitable work offers. Additionally, a claimant must certify his or her continuing eligibility status on a weekly basis prior to receiving UI benefits using IDES' telephone application, Teleserve. The certification (via Teleserve) requires the claimant to answer questions certifying their eligibility for the period benefits will be received, including whether the claimant was able and available for work and whether the claimant actively sought work during the certification period. However, the claimant is not required to certify whether he or she refused any suitable work offers. Accordingly, IDES does not have adequate procedures to determine on a continuing (prospective) basis whether claimants have refused suitable work offers during the period for which benefits are received.

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

According to 820 ILCS 405/603, an individual shall be ineligible for benefits if he has failed, without good cause, either to apply for available, suitable work when so directed by the employment office or Director, or to accept suitable work when offered him by the employment office or an employing unit.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure all eligibility certifications are made on a continuing basis throughout the period for which benefits are paid.

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In discussing these conditions with IDES officials, they stated claimants were previously required to certify that they had not refused suitable work through Teleserve on a weekly basis; however, the refusal to work certification was removed eleven years ago due to a perceived confusion from the claimants in answering the question.

Failure to obtain adequate certifications supporting the claimants' eligibility status could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 08-65)

Recommendation:

We recommend IDES implement procedures to ensure adequate eligibility certifications are obtained from all claimants on a continuing basis throughout the period for which benefits are paid.

IDES Response:

We agree. The script for the Teleserve Interactive Voice Response System will be expanded to include the refusal of work question. The new script will be implemented when IBIS goes live; the internet certification will also include the refusal of work question.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)
Federal Agency: US Department of Labor (USDOL)
Program Name: Unemployment Insurance Program
CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)
Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855
Questioned Costs: None

Finding 08-66 *Failure to Issue Eligibility Determinations within Prescribed Timeframes*

IDES is not issuing eligibility determinations for individuals applying for Unemployment Insurance (UI) benefits in accordance with timeframes required by the State Plan.

UI eligibility determinations are made during the initial intake of the claim and are monitored throughout the benefit payment period. If the claimant does not meet certain eligibility criteria either during the initial intake of the claim or throughout the benefit payment period, or if an employer disagrees with the initial eligibility determination, an issue is identified in the system and the claim appears on a pending adjudication report. The claim is then assigned to a claims adjudicator for resolution. The pending adjudication report monitors the number of days the claim has been outstanding since the initial detection date, which is the date on which IDES detected an issue on the claim which could affect past, present, or future benefit rights.

During our test work we conducted unannounced site visits to three local offices and requested the most recent pending adjudication report as of the date of our visit. We noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, we noted a total of 244 claims at the three local offices were outstanding for time periods ranging from 21 to 367 days as of the date of our visits.

Additionally, during our review of the fiscal year 2009 State Quality Service Plan (Plan) submitted by IDES to the USDOL, we noted IDES did not meet the acceptable level of performance for issuing eligibility determinations on certain disqualifying issues as defined by the USDOL (non-monetary issues) for the federal fiscal year 2008, resolving only 70.3% of these determinations within 21 days of the detection date.

According to 20 CFR Part 640.3, state laws are required to include provisions for such methods of administration as will reasonably insure the full payment of unemployment benefits for eligible claimants with the greatest promptness that is administratively feasible. According to the Unemployment Insurance Program Letter No. 14-05, Attachment C, issued by the Employment and Training Administration Advisor System of the USDOL, 80% of non-monetary determinations must be made by state workforce agencies within 21 days of the detection date.

In discussing these conditions with IDES officials, they stated the time lapse has been a problem for several years when IDES lost adjudication expertise to the early retirement incentive. The under funding of the UI program in recent years has worsened the situation by preventing Illinois from fully re-staffing those vacancies.

Failure to issue eligibility determinations within prescribed timeframes could result in the improper payment or withholding of unemployment compensation. (Finding Code 08-66)

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Recommendation:

We recommend IDES implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

IDES Response:

We agree that the percentage of non-monetary determinations issued within 21 days of the issue detection date is below federal standards. The increased workload has created a backlog. IDES has hired more staff, tried clustering the adjudication sites, hired 75-day staff, and pulled staff from other areas of the Department to address the backlog. We continue to tweak the corrective action plan in the State Quality Service Plan in an attempt to eliminate the backlog.

We monitor backlog on a weekly basis; backlog reduction meetings are held periodically to share best practices on the elimination of the backlog.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225(\$2,183,718,000)

Award Numbers: 08-A220-TGEU-4123-5TW01-000

Questioned Costs: Cannot be determined

Finding 08-67 *Inaccurate Benefit Payment Calculations*

IDES did not accurately calculate benefit payments for the Alternative Trade Adjustment Assistance (ATAA) grant administered under the Unemployment Insurance Program.

The ATAA grant is available to a subset of beneficiaries who were eligible for benefits under the Trade Readjustment Assistance (TRA) grant, which is also administered under the Unemployment Insurance Program. The objective of the TRA grant is to provide benefit payments to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The objective of the ATAA grant is to provide workers 50 years of age or older with the option of receiving a temporary wage subsidy upon prompt reemployment at lower pay than their previous adversely affected employment as an alternative to other TRA benefits. The ATAA wage subsidy must be evaluated on a monthly basis to determine whether the subsidy should be adjusted to accommodate pay changes resulting from changes in employment or shift differentials. Total expenditures for the ATAA program were \$810,200 for the year ended June 30, 2008.

During the period June 16-23, 2008, the U.S. Department of Labor – Employment and Training Administration (ETA) conducted a review of the Trade Adjustment Assistance (TAA), ATAA, and TRA Grants. The reviewers examined 61 participant files, interviewed state office staff, and analyzed documents related to performance, policies, types of services provided, training contracts, and expenditures. The reviewers also matched the participant files to documents and files supporting the eligibility determinations and payments. The final audit report indicated in six cases the ATAA benefit calculations were not accurate and were not re-verified monthly based upon actual paychecks. Paychecks reflecting a change in employment status or incorporating shift differentials were not considered in the calculations, and in some instances payments were not made on at least a monthly basis.

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

USDOL Training and Employment Guidance Letter (TEGL) 2-03 requires the ATAA benefit calculation to be repeated if, as a result of the monthly verification exercise, the claimant's hourly wage and/or hours are determined to have changed in such a way as to affect the ATAA wage subsidy. TEGL 2-03 also requires the benefits to be paid on a weekly, biweekly, or other payment frequency not to exceed monthly.

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Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure benefit payments are accurately calculated and paid in accordance with Federal guidelines.

In discussing these conditions with IDES officials, they stated during the period reviewed, a manual system was used to calculate payments.

Failure to accurately calculate and pay benefits could result in unallowable costs. (Finding Code 08-67)

Recommendation:

We recommend IDES implement procedures to ensure the ATAA benefit payments are properly calculated and paid on at least a monthly basis.

IDES Response:

The administration of the ATAA program was moved to the Springfield office. Formal procedures are under development to reflect the new automated system that has been put in place to ensure proper payments.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855

Questioned Costs: None

Finding 08-68 *Incomplete Documentation in Client Eligibility Files*

IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance program.

The Unemployment Insurance (UI) program administered by IDES provides benefits to eligible individuals that are unemployed and able and available to work. The structure of the Federal-State UI Program partnership is based upon Federal law; however it is implemented through State law, specifically the Illinois Unemployment Insurance Act (the Act)(820 ILCS 405). IDES has also developed a comprehensive policies and procedures manual available on their intranet to all employees to allow for the consistent and proper administration of the UI program. During our test work of the UI program, we selected 60 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In one case, the claimant's application contained insufficient documentation to determine if the claimant had dependents and provided over half the support, however the benefit payment included a dependent allowance. After identification of this during our audit, IDES was able to subsequently contact this individual to verify that they had a dependent.
- In two cases, the UI application could not be located. The claimants had been filing transitional claims electronically for seven years. Transitional claims are allowed to be filed under the Illinois Unemployment Act by the claimant electronically for an indefinite number of years after the initial UI application is processed if the claimant meets certain criteria. Generally, transitional claims are filed by seasonal employees who collect unemployment benefits from the same employer during the off season when work is not available. IDES' records retention policies allow applications to be purged after seven years even if the claimant is still receiving benefits. In each case, we were able to verify each of the eligibility criteria through information in the electronic files.
- In nine cases, the claimant was not registered on the Illinois Skills Match system. In each of these cases, we were able to determine the individuals were actively seeking employment through the weekly certifications made to IDES.
- In one case, the claimant did not indicate on the application whether any suitable work offers had been refused since the claimant had been laid off.

Additionally, we noted that copies of claimant identification (e.g. driver's license and social security card) were maintained at certain locations, but not others.

OMB Circular A-87, cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement

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contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

According to 820 ILCS 405/401-C, with respect to any benefit year beginning on or after January 4, 2004 and before January 6, 2008, an individual with a dependent child or dependent children to whom benefits are payable with respect to any week shall, in addition to those benefits, be paid 17.2% of his or her prior average weekly wage, provided that the total amount payable to the individual with respect to a week shall not exceed 65.2% of the statewide average weekly wage.

According to 820 ILCS 405/500-C, to be eligible for benefits, an unemployed individual must be able and available for work, provided that during the period in question he was actively seeking work and has certified such. IDES has established policies and procedures that describe actively seeking work as registering with the Illinois Skills Match Program, reporting at an employment office when requested in accordance with the regulations, and certifying during the period that he/she has been actively seeking work.

According to 820 ILCS 405/603, an individual shall be ineligible for benefits if he has failed, without good cause, either to apply for available, suitable work when so directed by the employment office or Director, or to accept suitable work when offered him by the employment office or an employing unit.

According to 820 ILCS 405/700, claims for benefits shall be made in accordance with such regulations as the Director may prescribe. IDES has established policies and procedures that require each claimant to complete an application for benefits and present valid identification during the intake process. The claim processor is required to initial the application, certifying that the identification was sighted.

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

In discussing these conditions with IDES, they stated the errors in completing the applications were oversights and claimants are advised to register in the Skills Match System, but do not always do so. Applications are retained in accordance with the agency's record retention policy..

Failure to maintain complete supporting documentation for eligibility determinations could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 08-68, 07-62, 06-61)

Recommendation:

We recommend IDES reinforce procedures to ensure all eligibility determination documentation is complete and properly maintained.

IDES Response:

We agree. IDES will reinforce with both the Regional UI Program Managers and the Region Managers that documents must be completed and properly maintained.

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The agency's Plan of Service will continue to require Local Office Managers to review applications for completeness and to provide corrective action plans for individuals who do not adequately complete the application forms.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855

Questioned Costs: None

Finding 08-69 *Inadequate Documentation of Eligibility Reviews Performed by the Benefits Accuracy Measurement Unit*

IDES did not maintain adequate documentation to support conclusions of eligibility reviews performed by the Benefits Accuracy Measurement (BAM) unit for the Unemployment Insurance (UI) program.

IDES is required to operate a BAM Program to assess the accuracy of UI benefit payments and denied claims. Specifically, IDES' BAM unit selects a weekly sample of payments and denied claims and performs procedures to determine whether claims were properly paid or denied. These procedures include reviewing the records and contacting the claimant, employers, and third parties to verify all of the information pertinent to the paid or denied claim that was sampled. For claims that were potentially overpaid, underpaid, or erroneously denied, the BAM unit investigator determines the amount of payment error or cause of and the responsibility for any payment error, the point in the UI claims process at which the error was detected, and actions taken by IDES and employer prior to the payment that is in error. During the year ended June 30, 2008, IDES' BAM unit reviewed a sample of 957 claims out of a total of 753,698 claims.

During our testwork over the BAM program, we selected 50 claims reviewed during the year and noted the following:

- One investigation summary document did not contain the case worker's signature.
- One file for a claimant deemed to have been improperly paid UI benefits did not include a copy of the claimant's identification.
- Four files for claimants deemed to have been properly paid UI benefits did not include a copy of the claimant's identification.
- Four files for claimants deemed to have been properly paid UI benefits did not include evidence supporting the dependency allowance paid.

According to 20 CFR 602.11, IDES is required to operate a Benefits Accuracy Measurement program to assess the accuracy of UI benefit payments and denied claims. Chapter VII of the Benefits Accuracy Measurement State Operations Handbook includes written procedures that must be followed during the BAM program investigations. Specifically, section two requires that each case file must contain, at a minimum, a copy of all agency documents from the claimant's original file in addition to any documents pertaining to the BAM investigation that were utilized. These documents include but are not limited to the claimant questionnaire, the key week certification form, a copy of the claimant's identification, the authorization to release information form, the signed statement on fact finding issues, the work search verification – employer form, and the verification of dependents form.

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In discussing these conditions with IDES officials they stated that attempts are made to obtain documentation from the claimant, but they don't always respond. In addition, the BAM unit has a number of new staff.

Failure to adequately document the eligibility reviews performed by the BAM unit could result in improper conclusions on the eligibility of individuals receiving UI benefits and an inaccurate benefit accuracy rate being reported to the USDOL. (Finding Code. 08-69)

Recommendation

We recommend IDES implement procedures to ensure all required documentation is retained in the BAM unit case files.

IDES Response

We agree. All BAM staff will be retrained on the documentation requirements for Paid and Denied Claims.

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State Agency: Illinois Department of Employment Security (IDES)
Federal Agency: US Department of Labor (USDOL)
Program Name: Unemployment Insurance
CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)
Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855
Questioned Costs: None

Finding 08-70 *Inadequate Documentation of Policies and Procedures, Resolution of Exceptions, and Supervisory Review of the Claim Exception and Monitoring Reports*

IDES has not adequately documented policies and procedures to work all claim exception and monitoring reports. Additionally, the local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports, and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- SSN Verification From SSA - At the end of each work day, the Social Security Numbers (SSNs) for all new claims are extracted for submission to the Social Security Administration (SSA) for verification. All SSNs that are returned to IDES as invalid are written to a report that is sorted by local office.
- Sensitive Changes Report - The Sensitive Changes Report includes name, address and SSN changes, claim and claimant information deletions and TeleServe PIN resets. Management reviews the report to ensure that proper supporting documentation is available, where applicable, and to monitor for any unusual activity that may require further follow-up. The report also includes the terminal ID where the changes were made to facilitate tracking.
- Immigration Record Check For Unemployment – This is a daily listing of claimants who are not US citizens and was created to allow for follow-up to ensure non-citizens were registered with the federal Verification Information System (VIS).
- Combined Application Error Report – All daily claim applications appear on this report. Regional offices have the ability to request the report for any of their local offices as needed. Each transaction is reviewed to confirm that it was accepted; any rejected transactions require follow-up.
- File Maintenance Error Report and Rejected Transaction Report – All daily rejected transactions, other than applications and certifications, appear on one of these two reports. The File Maintenance Error Report lists only rejections and warning messages from system generated transactions and local office adjudication data entries. Regional offices have the ability to request both reports for any of their local offices as needed. Each transaction is reviewed to determine if corrective action is needed. If corrective action is taken, documentation of the action is required by annotating the report with the type and dates of the action. The corrected error reports are periodically reviewed by the local office supervisor.
- Media Transfer Report – All claimants must file for benefits at the local office responsible for the area in which the claimant lives. Often times a claimant will go to a different local office, thus the claim will be taken and transferred to the correct local office. All claims transferred in and out of each local office are listed on this report, and each office is responsible for verifying that all files that should be transferred in have been received.

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- Daily Rejected Report – All eligibility determination rejections, as well as who made the determination and why the rejection was made. The report is reviewed for reasonableness.
- All Transactions Report – All activity that happened the previous day, including claims entered, payments processed, etc. This report is reviewed for reasonableness.
- Claims Application Error Report – All claims that were potentially paid in error based upon certain edits within the system. All claims on this report require follow-up.
- Internet Claim Deletions Report – All internet claims that were deleted from the system. The report includes information such as when the claim was set up, by whom, the eligibility determination made, and when the claim was deleted. Other than this report, there is no other documented history retained of internet claims after their deletion from the system.
- First Certification Report – All claimants certifying for the first time. All first certifications must be reviewed for eligibility.
- Certification Summary Report – All claimants certifying through the TeleServe system are included on this report. This report is reviewed for reasonableness.
- Pending Adjudication Report – All claims that are in the adjudication process and the number of days the claim has been in the process. This report is used to track the resolution of the protested claims to ensure they are resolved within 21 days.

During our test work we noted policies and procedures had not been established for the Media Transfer Report, the All Transactions Report, the Claims Application Error Report, the Internet Claims Deletion Report, the First Certification Report, and the Pending Adjudication Report. Additionally, IDES only retains claim exception and monitoring reports (except for the sensitive changes report) for a period of three months after the end of the quarter.

We conducted unannounced site visits to three local offices and requested the above claim exception and monitoring reports for the most recent date that had been reviewed by the local office staff. From each report, we reviewed exceptions to determine whether they had been properly resolved. We noted that resolution of exceptions and supervisory review was not consistently documented.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate timely follow up and documentation of review of claim exception reports.

In discussing these conditions with IDES officials, they not all reports and/or items on reports require resolution and supervisory review; therefore, formal procedures have not been established for all reports. _

Failure to adequately follow up and document resolution of claim exception and monitoring reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 08-70, 07-63, 06-62, 05-88)

Recommendation:

We recommend IDES formalize policies and procedures for applicable claim exception and monitoring reports, clearly complete and document the resolution of each claim in a timely manner on the exception and monitoring report (including supervisory review), and retain the reports as considered necessary to comply with federal audit requirements. IDES should also consider automating the claim exception and monitoring edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation

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IDES Response:

IDES has reviewed and revised their procedures. Not all reports and/or items on each report require resolution. Not all reports and/or items on reports require supervisory review. We will discuss at the next UI Program Managers' meeting to ensure that all required reports and items are properly reviewed by the Local Office Manager or his/her designee.

The reports are hardcopy and we do not have adequate space to maintain and secure the reports for more than three months. Once the required items are resolved, it is not necessary internally to retain the reports any longer. With the implementation of IBIS and real time processing, fewer reports will be necessary and most will be electronic.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Employment Services Cluster
Unemployment Insurance Program

CFDA # and Program Expenditures: 17.207/17.801/17.804 (\$36,717,000)
17.225 (\$2,183,718,000)

Award Numbers: ES148620555/ES156930655/ES162620755 (17.207/17.801/17.804)
(CFDA Number) UI144320555/UI151190655/UI157960755/UI67440855 (17.225)

Questioned Costs: \$4,945

Finding 08-71 *Inadequate Procedures over Effort Reports*

IDES did not have adequate procedures in place to ensure effort (time) reports are signed by employees.

During our testwork of 60 payroll expenditures charged to the Employment Services Cluster (ES) and Unemployment Insurance (UI) programs, we noted three effort reports were not signed by the employee. Payroll charged to the ES and UI programs related to these effort reports was \$4,185 and \$760, respectively. Total payroll charged to the ES and UI programs was \$18,079,000 and \$90,873,000, respectively, during the year ended June 30, 2008. Payroll expenditures selected for our testwork from the ES and UI programs was \$109,176 and \$131,840, respectively.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each personnel activity report or equivalent documentation must be signed by the employee. Additionally, the A-102 Common Rule requires non-federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure employees sign and certify their time on the effort reports.

In discussing these conditions with IDES officials, they stated one local office was using outdated policies and procedures when completing the effort reports.

Inadequate documentation and certification of actual payroll expenditures incurred may result in federal funds being expended for unallowable purposes. (Finding Code 08-71)

Recommendation:

We recommend IDES reinforce procedures to ensure all effort reports are properly signed and certified by the employees.

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IDES Response:

We agree. The two individuals in question did sign daily on the Time and Attendance Reports which document the hours worked daily; however, they failed to sign the individual Time Distribution and Attendance Reports (Effort Reports). The employees have now signed the reports. Cost Center Managers will be reminded of the importance of ensuring that employees sign/certify the Time Distribution and Attendance Reports.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Employment Services Cluster

CFDA # and Program Expenditures: 17.207/17.801/17.804 (\$36,717,000)

Award Numbers: ES148620555/ES156930655/ES162620755

Questioned Costs: None

Finding 08-72 *Improper Calculation of Earmarking Requirement*

IDES did not properly calculate the earmarking requirement applicable to the Employment Services (ES) program.

IDES is required to expend ten percent (earmarking requirement) of the Wagner Peyser Act (the Act) allotment (CFDA No. 17.207) to provide certain specified services in accordance with the Act, including performance incentives for public employment service offices and programs, services for groups with special needs, and the extra costs of exemplary models for delivering services of the types described in subsection (a) of the Act. IDES monitors this earmarking requirement by establishing a budgetary reserve in the system, which tracks actual expenditures compared to the budgetary reserve. During our testwork of the grant award beginning October 1, 2007, we noted IDES improperly calculated the budgetary reserve (earmarking requirement) as \$2,907,353, which was \$56,241 less than the required amount of \$2,963,594. As of the date of our testwork, actual expenditures for the required specified services exceeded the ten percent earmarking requirement and, accordingly, IDES appeared to be in compliance with the earmarking requirement.

According to 29 USC 49f(b), ten percent of the sums allotted to each state shall be reserved to provide services and activities including: (1) performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary, taking into account direct or indirect placements (including those resulting from self-directed job search or group job search activities assisted by such offices or programs), wages on entered employment retention, and other appropriate factors; (2) services for groups with special needs, carried out pursuant to joint agreements between the employment service and appropriate local workforce investment boards and chief elected official or officials or other public agencies or private nonprofit organizations; and (3) the extra costs of exemplary models for delivering services of the types described in subsection (a) of the Act. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

In discussing these conditions with IDES, they stated the agency received a grant modification that included additional funding for the program to cover postage costs which have historically been paid directly by USDOL. The earmarking requirement was calculated shortly after receipt of the initial grant award and did not include the additional funds subsequently awarded for the program.

Failure to accurately calculate the earmarking requirement could result in expenditures claimed that are inconsistent with the objectives of the federal programs and the State not meeting the Employment Services earmarking requirement. (Finding Code 08-72)

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Recommendation:

We recommend IDES establish procedures to ensure earmarking requirements are properly calculated based on total grant awards.

IDES Response:

We agree.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)

Award Numbers: UI44320555/UI151190655/UI157960755/UI167440855

Questioned Costs: None

Finding 08-73 Inaccurate ATAA Special Report

IDES did not accurately report expenditures in the Alternative Trade Adjustment Activities (ATAA) Special Report.

The ATAA Special Report is required to be submitted on a quarterly basis to report key workload data used by the USDOL to measure program activities and to allocate program and administrative funds to the state agencies administering the Alternative Trade Adjustment Assistance grant under the Unemployment Insurance (UI) program.

During our review of the June 30, 2008 quarterly ATAA Special report, we noted IDES did not reconcile the total expenditures reported for the ATAA to the general ledger. We also noted that the ATAA special report was prepared and submitted by the same individual and was not sufficiently reviewed by a supervisor prior to submission. Upon our request, IDES reconciled the expenditure amounts to the general ledger for each quarter and noted the following variances:

<u>Quarter Ended</u>	<u>Reported Expenditures</u>	<u>Actual Expenditures</u>	<u>Variance</u>
September 30, 2007	\$ 221,447	194,077	27,370
December 31, 2007	228,834	203,390	25,444
March 31, 2008	178,186	225,797	(47,611)
June 30, 2008	114,701	186,936	(72,235)

According to 20 CFR Part 617.61, a state agency shall furnish to the Secretary such information and reports and conduct such studies as the Secretary determines are necessary or appropriate for carrying out the purposes of the Trade Adjustment Assistance for Workers program. USDOL Training and Employment Guidance Letter No. 2-03 requires state workforce agencies to submit a report detailing quarterly activities regarding ATAA participation in their States. The A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure reported expenditures are reconciled to the general ledger and the report is reviewed by an appropriate individual with knowledge of the reporting requirements.

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In discussing these conditions with IDES officials, they stated during the audit period, a manual system was used to compile the report data.

Failure to accurately report information regarding ATAA participation in the State of Illinois prevents the USDOL from effectively monitoring the Alternative Trade Adjustment Assistance grant under the UI program. (Finding Code 08-73, 07-66)

Recommendation:

We recommend IDES review the process and procedures in place to prepare the ATAA Special Report to ensure expenditures are accurately reported and reconciled to the general ledger.

IDES Response:

We agree. IDES has established a procedure to ensure quarterly reconciliations are performed and the accurate submission of the ATAA Special Report. The report is reviewed and signed by the State UI Program Manager.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Employment Services (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance Program

CFDA # and Program Expenditures: 17.225 (\$2,183,718,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855

Questioned Costs: None

Finding 08-74 *Inadequate Documentation of Controls over Information Systems*

IDES does not have adequate documentation of access and program development controls over the information systems that support the Unemployment Insurance (UI) Program.

The information technology systems that support the UI Program include the following:

- The Benefit Information System (BIS)
- The Wage Information System (WIS)
- The Benefit Funding System (BFS)
- The Benefit Charging System (BCS)

The BIS is the centrally-maintained legacy system that embodies the requirements of the UI Act rules, policies and procedures applicable to the UI benefit payments. It interfaces with the WIS, which is the system that includes all of the employer wage data and remittance information for the payroll taxes. The BFS includes the employer setup information and the rate calculation process and the BCS is the system that charges the employment tax rates to the employer accounts.

Access to the information systems that support the UI Program is done through the mainframe system utilizing a security software system. The security software utilizes specific, individually-assigned identifiers which control/limit access to the systems that support the UI Program.

Requests for new system access or termination of access must be approved by the cost center manager through the use of the TSS-001 Form. The user IDs are automatically deleted once employment has terminated as each pay period a job is run which checks employee status against the personnel data base. When this job identifies employees who have terminated, the user ID for the individual is removed. Any modification of access must also be approved by the cost center manager through the use of the TSS-006 Form. It is the cost center manager's responsibility to determine the proper on-line access for each employee.

During our testwork over the access, program change and development, and computer operations controls of the mainframe system, we noted the following:

- The policy in place for terminating access rights was not consistently followed. Specifically, we selected 15 employees terminated during the year ended June 30, 2008 and noted that one employee who terminated employment still had active system access

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For the Year Ended June 30, 2008

- One retired individual still had active administrative access
- One administrator password account used to move changes into production is shared by two individuals
- Powerful system ID's and accounts (Super User ID's) were being used on a non-emergency basis to resolve transaction or application related problems that occurred during the regular day or night batch processing.
- Three individuals had inappropriate access to the computer resources room
- A data recovery test was not performed during the fiscal year ended June 30, 2008.
- Policies and procedures are not updated in a timely manner. Specifically, we noted the Program Development Methodology has not been updated since 1991.

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

In discussing these conditions with IDES officials, they stated:

- Technical Services and Security (TSS) automatically revokes access as terminations appear in the Payroll system. Access rights may not be timely terminated if HRM does not update employee status in the payroll database and the employee's manager does not notify TSS of the termination.
- The administrative access was maintained for the employee cited in the test-work notes in anticipation of his returning as a 75-day employee within one month of his retirement.
- The shared ID had not been used in many years by other than the primary user and should have been changed to a non-shared status.
- TSS was unaware (until the audit finding) that at least one individual identified as having inappropriate access to the computer room had changed positions and, therefore, no longer required access.
- Staffing resources are often not available to follow the normal process for fixing data errors, particularly errors occurring when converting benefit transactions in the Benefit Information System (BIS) to benefit charges in the Benefit Charging System (BCS). The use of Super ID's is the most expeditious method for ensuring that benefit transactions are processed correctly in BIS. Correcting such errors is critical as benefit charges are a key component of employer tax rate calculations.
- The Department has decided not to conduct data recovery testing of the legacy benefit system until after cutover to a new benefit system.
- Until recently, no one was identified as being responsible for update of the Department's program development methodology procedures.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 08-74, 07-65, 06-68, 05-93)

Recommendation:

We recommend IDES ensure information system policies and procedures are adequately documented, updated, and consistently followed.

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For the Year Ended June 30, 2008

IDES Response:

We agree. We will complete our updating of program development methodology procedures. We will improve enforcement of facility and system access rights and will restrict the sharing of administrative passwords to non-routine/emergency situations. With respect to Super ID's, the Department will seek additional Information Services resources, subject to budget constraints, to correct non-emergency production problems without using Super ID's.

Data recovery testing is suspended pending conversion to a new benefit system (IBIS). Contingency Testing will resume once conversion is complete.

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For the Year Ended June 30, 2008

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

Federal Agency: US Department of Housing and Urban Development (USHUD)

Program Name: Community Development Block Grant (CDBG)

CFDA # and Program Expenditures: 14.228 (\$27,121,000)

Award Numbers: B-00-DC-17-0001/B-01-DC-17-0001/B-02-DC-17-0001/B-03-DC-17-0001
B-04-DC-17-0001/B-05-DC-17-0001/B-06-DC-17-0001/B-07-DC-17-0001

Questioned Costs: None

Finding 08-75 *Inaccurate Performance and Evaluation Report*

DCEO did not accurately report financial information in the Performance and Evaluation Report for the Community Development Block Grant (CDBG) Program.

DCEO is required to prepare the Performance and Evaluation Report (OMB No. 2506-0085) on an annual basis. This report includes a description of the use of funds, an assessment of the grantee's use for the priorities and objectives identified in the plan, and various financial status information. During our testwork of the Performance and Evaluation Report for the year ended December 31, 2007, we noted amounts included in the report did not agree (reconcile) to the general ledger and supporting schedules. The differences identified were as follows:

Grant Number B-07-DC-17-0001			
Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section B - State Administration			
Administration	\$ 775,124	755,174	(19,950)
Part 2. National Objectives:			
Section B - Amount Used To			
Benefit to Low/Moderate Income Persons	\$ 22,469,069	22,485,569	16,500
Local Administration	1,280,221	1,263,721	(16,500)

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Grant Number B-06-DC-17-0001

<u>Title</u>	<u>As Reported</u>	<u>Actual</u>	<u>Variance</u>
Part 1. Financial Status:			
Section D - Funds Activities			
Funds Re-Obligated	\$ -	1,185,718	1,185,718

Grant Number B-02-DC-17-0001

<u>Title</u>	<u>As Reported</u>	<u>Actual</u>	<u>Variance</u>
Part 2. National Objectives:			
Section B - Amount Used To			
Benefit to Low/Moderate Income Persons	\$ 35,151,473	35,777,883	626,410
Local Administration	2,661,407	2,034,997	(626,410)

Grant Number B-01-DC-17-0001

<u>Title</u>	<u>As Reported</u>	<u>Actual</u>	<u>Variance</u>
Part 2. National Objectives:			
Section B - Amount Used To			
Benefit to Low/Moderate Income Persons	\$ 35,468,181	36,033,122	564,941
Local Administration	2,597,172	2,032,231	(564,941)

According to 24 CFR 91.520 (a) and 24 CFR 91.520 (c), each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan within 90 days after the close of the jurisdiction's program year. For CDBG recipients, the report shall include a description of the use of CDBG funds during the program year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure amounts reported in required financial reports are accurate.

In discussing these conditions with DCEO officials, they stated although a corrective action plan was implemented as a result of the prior year audit, the plan was deficient in that it only required a review of financial elements provided from the DCEO Accounting system and did not address programmatic information. The review process has since been redesigned to include a full verification of the report by Accounting staff prior to filing by program staff.

Failure to accurately report amounts in the Performance and Evaluation Report prevents the USHUD from effectively monitoring the Community Development Block Grant Program. (Finding Code 08-75, 07-67)

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For the Year Ended June 30, 2008

Recommendation:

We recommend DCEO review the process and procedures in place to prepare the Performance and Evaluation Report to ensure amounts are reported correctly and are reconciled to the general ledger and supporting schedules.

DCEO Response:

The department agrees with the recommendation and has redesigned the review process to include all elements of the report by Accounting staff prior to official filing by program staff.

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

Federal Agency: US Department of Labor (USDOL)

Program Name: Trade Adjustment Assistance Program

CFDA # and Program Expenditures: 17.245 (\$10,399,000)

Award Numbers: TA-14377-05-55/TA-15300-06-55/TA-15896-07-55

Questioned Costs: Cannot be determined

Finding 08-76 *Failure to Properly Issue and Evaluate Training Waivers and Failure to Properly Calculate Job Search Allowance*

DCEO did not properly issue and evaluate training waivers and did not properly calculate the job search allowance for the Trade Adjustment Assistance (TAA) Program.

The purpose of the TAA and the North American Free Trade Agreement-TAA (NAFTA-TAA) programs are to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The Trade Adjustment Assistance Reform Act of 2002 (TAA Reform Act) repealed the NAFTA-TAA program and created a reformed TAA program, which was implemented beginning November 4, 2002. The objective of the reformed TAA program is to assist individuals who become unemployed or underemployed as a direct or indirect result of increased imports or a shift in production to certain foreign countries to return to suitable employment. Workers certified under TAA or NAFTA-TAA petitions, filed prior to November 4, 2002, will continue to be served under the program regulations as they were in effect before November 4, 2002.

The reformed TAA program requires the State to serve as agents of the USDOL for administering the worker adjustment assistance benefit provisions of the TAA Act. Through the State's One Stop Career Centers and other local offices, the State must arrange for training for eligible program participants. In addition, eligible individuals may receive a job search allowance, a relocation allowance, and a transportation and/or subsistence allowance for the purpose of attending approved training outside the normal commuting distance of their regular place of residence.

The TAA program is administered in Illinois by DCEO through Local Workforce Investment Areas and other local providers. DCEO is responsible for written determinations concerning client eligibility for training or training waivers. DCEO utilizes their local workforce investment agencies to administer the program and document the eligibility determinations and training waivers in the Illinois Workforce Development System (IWDS).

During the period June 16-23, 2008, the U.S. Department of Labor – Employment and Training Administration (ETA) conducted a review of the Trade Adjustment Assistance (TAA), Alternative Trade Adjustment Assistance (ATAA), and Trade Readjustment Assistance (TRA) Programs. The reviewers examined 61 participant files, interviewed state office staff, and analyzed documents related to performance, policies, types of services provided, training contracts, and expenditures. The reviewers also matched the participant files to documents and files supporting the eligibility determinations and payments. The final audit report indicated the following:

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- In four cases the waiver effective dates did not match the waiver issue dates. This indicated waiver forms were being signed without actually evaluating the claimant's current circumstances, and then were issued at a later date.
- In two cases, the waiver date in the system did not match the waiver date on the paper form.
- In one case, the waiver was effective for 12 months
- In three cases, the files did not indicate that a review of the conditions upon which the waiver was granted had taken place every 30 days
- In two cases, the job search allowance was calculated incorrectly. In one case, the cost of gas was reimbursed rather than using a mileage rate. In another case, the claimant was paid 90% of the cost of gas to travel to the location of the interview, rather than being paid at the appropriate mileage rate.

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

Section 114(b) and 115(c) of the Trade Adjustment Reform Act of 2002 (Pub. L. No. 107-210) requires that workers must be enrolled in their approved training within eight weeks of the issuance of the certification or within 16 weeks of their most recent qualifying separation, whichever is later, unless this requirement is waived. In accordance with 20 CFR Section 617.11, to be eligible for weekly TRA payments, a worker must be enrolled in or have completed an approved job training program, unless a waiver from the training requirement has been issued after a determination is made that training is not feasible or appropriate. In accordance with 20 CFR Section 617.19 (3)(c), State agencies must have a procedure for reviewing regularly (i.e., every 30 days or less) all waivers issued under this section to individuals, to ascertain that the conditions upon which the waivers were granted continue to exist. DCEO has adopted a policy to review the waivers every 30 days. USDOL Training and Employment Guidance Letter (TEGL) 11-02 Section D₃ states that a waiver should not be issued for more than a six month period.

In accordance with 20 CFR 617.34(a), the amount of a job search allowance shall be 90 percent of the total costs of transportation and subsistence (if the participant is eligible for subsistence). For travel, the expenses reimbursed at 90 percent shall be the actual cost of roundtrip travel by the least expensive means of travel available, or the cost per mile at 90 percent of the prevailing mileage rate authorized by the Federal Travel Regulations. Such reimbursement is based on the mileage rate and not the cost of gas alone.

In discussing these conditions with DCEO officials, they reaffirmed that these issues were identified previously in the audit period during a federal review of the program. The deficiencies were caused by grantee(s) not adhering to established procedures and program requirements regarding client assistance.

Failure to properly issue and evaluate waivers and failure to properly calculate job search allowances could result in federal funds being awarded to ineligible beneficiaries and unallowable costs. (Finding Code 08-76)

Recommendation:

We recommend DCEO implement procedures to ensure waiver forms are properly issued and evaluated every 30 days. Additionally, we recommend DCEO implement procedures to ensure job search allowances are properly calculated.

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DCEO Response:

The department agrees with the recommendation and will ensure adequate procedures are in place and the local workforce investment areas are trained and provided with technical assistance to ensure waivers are properly issued and evaluated and job search allowances are properly calculated.

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For the Year Ended June 30, 2008

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

Federal Agency: US Department of Labor (USDOL)

Program Name: Workforce Investment Act Cluster

CFDA # and Program Expenditures: 17.258/17.259/17.260 (\$144,845,000)

Award Numbers: AA-14673-05-55/AA-15477-06-55/AA-16026-07-55

Questioned Costs: None

Finding 08-77 *Inadequate Documentation of Supervisory Review and Untimely Communication of On-Site Monitoring Findings*

DCEO did not adequately document supervisory reviews of on-site monitoring procedures and did not communicate the resulting findings on a timely basis for the Workforce Investment Act Cluster (WIA) program.

DCEO passes through federal funding to 55 formula and discretionary grantees (subrecipients) throughout the State. Each of these agencies works with DCEO to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the WIA program. DCEO has established policies and procedures for monitoring its subrecipients, which includes: performing fiscal and programmatic on-site reviews, reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During our testwork of 14 subrecipients of the WIA program with total expenditures of \$83,000,000, we noted:

- Supervisory reviews of monitoring procedures were not documented for three fiscal and three programmatic on-site reviews.
- The findings and management recommendations for four fiscal and two programmatic on-site monitoring reviews were not communicated to the subrecipients as of the date of our testwork.
- The findings and management recommendations for three fiscal and two programmatic on-site monitoring reviews were not communicated to the subrecipients in a timely manner. The number of days elapsed between the exit conference and the communication of the findings ranged from 126 to 347 days.

Total awards passed through to subrecipients of the WIA program were approximately \$134,309,000 during the year-ended June 30, 2008.

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

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ensure on-site reviews are appropriately reviewed by DCEO personnel and findings are communicated to subrecipients on a timely basis.

In discussing these conditions with DCEO officials, they stated that the untimely communication of on-site monitoring findings was attributed to program staff vacancies during a critical period of time with increased program activity, funding and training participant levels. Monitoring staff witnessed an increased activity level as result of the overall downturn in the national and state economy as they attended more Rapid Response events (plant closings) during this period. In addition monitoring resources were also assigned to the program's annual DOL data validation efforts which required review of approximately 1,500 participant files during this time period. The implementation of the program's new automated monitoring system during this time period also impacted the timeliness of the monitoring and staff completing new procedures for data entry into the system for validation of supervisory review.

Failure to adequately perform supervisory reviews of on site monitoring procedures and to communicate the resulting findings may result in subrecipients not properly administering federal programs in accordance with laws, regulations, and grant agreements. (Finding Code 08-77)

Recommendation:

We recommend DCEO adequately document supervisory reviews and communicate findings and management recommendations for on-site reviews on a timely basis.

DCEO Response:

The department agrees with the recommendation and will review existing procedures and implement necessary changes to ensure program staff adequately documents supervisory reviews and communicates findings and management recommendations for on-site reviews on a timely basis. The department has also developed a plan to hire additional program staff to meet the requirements of the program and the additional funding provided by the American Recovery and Reinvestment Act of 2009.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program

CFDA # and Program Expenditures: 20.106 (\$90,481,000)

Award Numbers: Various

Questioned Costs: None

Finding 08-78 *Inadequate On-Site Monitoring of Subrecipients*

IDOT is not performing on-site reviews of subrecipients receiving federal awards for the Airport Improvement program and has not developed formal policies and procedures for on-site reviews.

IDOT passed through approximately \$50,734,000 to 39 subrecipients of the Airport Improvement program during the year ended June 30, 2008. The majority of the subrecipient grants pertain to construction projects for airport improvement or noise abatement projects. As a pass through entity, IDOT monitors subrecipients of the Airport Improvement program primarily by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and receiving OMB Circular A-133 Audit Reports. However, IDOT does not perform on-site reviews of its subrecipients.

According to OMB Circular A-133 __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated March 2008, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved.

In discussing this condition with IDOT officials, they state that although the Division of Aeronautics has always “informally” monitored local let projects, a verifiable procedure was not in place to document these reviews during fiscal year 2008.

Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-78, 07-70, 06-71, 05-76)

Recommendation:

We recommend IDOT develop formal policies and procedures to perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

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IDOT Response

The Department agrees with the recommendation. We have implemented a procedure, that documents on the Form AER 50 "Local Let Project Tracking Worksheet and Documentation" was utilized for all local let projects that began in fiscal year 2009. Although the Division has always "informally" monitored local let projects, a verifiable procedure is now in place.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Program

CFDA # and Program Expenditures: 20.205 (\$1,229,855,000)

Award Numbers: Various

Questioned Costs: None

Finding 08-79 *Failure to Obtain Suspension and Debarment Certifications from Subrecipients*

IDOT did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the Highway Planning and Construction Program.

During our review of 30 grant agreement notifications to subrecipients of the Highway Planning and Construction Program, we noted IDOT did not include a suspension and debarment certification in one of the grant agreements. As a result, IDOT did not receive a certification that this subrecipient of the Highway Planning and Construction Program was not suspended or debarred from participation in Federal assistance programs. Additionally, IDOT did not perform a verification check with the “Excluded Parties List System” (EPLS) maintained by the General Services Administration for its subrecipients. During the year ended June 30, 2008, IDOT passed through approximately \$104,027,000 to approximately 290 subrecipients of the Highway Planning and Construction Program.

According to 49 CFR 18.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension.” The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with IDOT officials, they state that one division was using an outdated grant agreement that did not include the suspension and debarment certifications.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding Code 08-79)

Recommendation:

We recommend IDOT establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance program.

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IDOT Response:

We concur. We will establish and implement procedures to ensure compliance for individual awards over \$25,000 or more are not suspended or debarred or otherwise excluded from participation in federal assistance programs.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)
US Department of Homeland Security (USDHS)

Program Name: Airport Improvement Program
Highway Planning and Construction Program
Homeland Security Cluster

CFDA # and Program Expenditures: 20.106 (\$90,481,000)
20.205 (\$1,229,855,000)
97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: Various (20.106)
(CFDA Number) Various (20.205)
2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/
2007-GE-T7-0022 (97.004/97.008/97.053/97.067/97.073/97.074)

Questioned Costs: None

Finding 08-80 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports on a timely basis.

IDOT passed through \$104,027,259, \$50,733,583, and \$123,329 to subrecipients of the Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs, respectively, during the year ended June 30, 2008. During our testwork, we selected 15 subrecipient monitoring files (fourteen from the Highway Planning and Construction program, four from the Airport Improvement program, and one that received funding from all three programs) and noted one subrecipient report was received on February 21, 2008 and had not been reviewed as of the date of our test work. In addition, the checklist used by IDOT to perform A-133 desk reviews does not address procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient.

Per OMB Circular A-133 Compliance Supplement, dated March 2008, a pass-through entity is required to monitor the activities of subrecipients to provide reasonable assurance that the subrecipients administer the federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipients to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. Additionally, pass-through entities are required to issue a management decision on audit findings within 180 days after receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

In discussing these conditions with IDOT officials, they state that with respect to the one report that was received in February of 2008 for which a review had yet to be issued, this report was purposely being held pending the completion of a site audit of the subrecipient. The Department is revising procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient; however, the procedures were not fully implemented in the audit period.

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Failure to review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 08-80, 07-72, 06-72, 05-77, 04-62, 03-54, 02-48)

Recommendation:

We recommend IDOT implement procedures to ensure the OMB Circular A-133 audit reports are reviewed within sixty days of receipt. Additionally, we recommend IDOT implement procedures to ensure amounts reported by subrecipients in the schedule of expenditures of federal awards are reconciled to departmental records.

IDOT Response:

We concur. The Department will implement procedures to incorporate a process to reconcile the Department's cash payments with subrecipients' schedules of expenditures of federal awards. The checklist has also been revised to reflect procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported in the subrecipients' OMB Circular A-133 audit reports.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)
US Department of Homeland Security (USDHS)

Program Name: Airport Improvement Program
Highway Planning and Construction Program
Homeland Security Cluster

CFDA # and Program Expenditures: 20.106 (\$90,481,000)
20.205 (\$1,229,855,000)
97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: Various (20.106)
(CFDA Number) Various (20.205)
2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/
2007-GE-T7-0022 (97.004/97.008/97.053/97.067/97.073/97.074)

Questioned Costs: None

Finding 08-81 Failure to Notify Subrecipients of Federal Funding

IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs for the year ended June 30, 2008.

During our testwork of 16 subrecipients who received \$45,222,115 in Highway Planning and Construction program funds, 16 subrecipients who received \$48,768,799 of the Airport Improvement program funds, and three subrecipients who received \$123,329 in Homeland Security Cluster funds, we noted IDOT did not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients. IDOT did not communicate the need for an audit in accordance with OMB Circular A-133 or program regulations for 13 of the 16 subrecipients tested who received funding from the Highway Planning and Construction program, for 7 of the 16 subrecipients tested who received funding from the Airport Improvement Program. Additionally, two subrecipients who received funding from the Homeland Security Cluster were not identified as subrecipients on the list used to track the receipt of the OMB Circular A-133 reports and as such, did not receive a letter from IDOT requesting the OMB Circular A-133 report. Subrecipient expenditures under the federal programs for the year ended June 30, 2008 were as follows:

Program	Total Fiscal Year 2008 Subrecipient Expenditures	Total Fiscal Year 2008 Program Expenditures	%
Airport Improvement Program	\$50,734,000	\$90,481,000	56.1%
Highway Planning and Construction Program	\$110,573,000	\$1,229,855,000	9.0%
Homeland Security Cluster	\$123,000	\$48,941,000	0.3%

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According to OMB Circular A-133 §__400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The pass through entity is also required to advise subrecipients of requirements imposed on them by federal laws and regulations.

In discussing these conditions with IDOT officials, they state that corrective action had not been implemented as thoroughly as it should have been with regard to both new and already active project agreements.

Failure to inform subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 08-81, 07-73, 06-74, 05-78, 04-63)

Recommendation:

We recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

IDOT Response:

We concur. The details of this repeated finding, as well as the corrective action and appropriate language to include in all active and new project agreements, has been shared with appropriate personnel in a department-wide memorandum issued on May 13, 2009. This memorandum revised and reiterated the corrective action requirements issued previously by the department. In addition, we will establish and implement monitoring procedures to ensure contracts comply with the memorandum.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: None

Finding 08-82 *Failure to Draw Funds Only for Immediate Cash Needs*

IDOT did not minimize the time elapsing between the draw down of federal funds from the U.S. Treasury and their disbursement for program purposes, and did not deposit the Homeland Security Cluster funds into an interest-bearing account.

During our review of 25 expenditures totaling \$683,016 related to federal fiscal 2005 Homeland Security Cluster grants, we noted a warrant was not issued for one expenditure totaling \$16,895 within 120 business days of receiving federal funds intended to finance the expenditure. Specifically, the warrant was issued 322 days after receiving the federal funds. Additionally, we noted that IDOT did not deposit the funds in an interest bearing account and did not track the interest earned on those funds. Total expenditures for the Homeland Security Cluster program administered by IDOT were \$866,111 during the year ended June 30, 2008.

According to the OMB Circular A-133 Compliance Supplement dated March, 2008, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter V.C.3 of the 2006 HSP Guidelines, and Appendix B Section B of the 2007 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to minimize the time elapsing between the receipt and disbursement of federal funds.

In discussing these conditions with IDOT officials, they stated that the prior year's audit corrective action plan including the funding procedures and separate appropriation account for Homeland Security funds were not implemented until July 2008. With regard to the \$16,895 expenditure resulting in a lengthy delay in the issuance of the warrant, this event was due to an unfortunate issue with the vendor that needed to be resolved before payment could be processed.

Failure to draw and disburse federal funds in accordance with program regulations and failure to deposit federal advances in an interest-bearing account results in lost interest earnings due to the U.S. Treasury. (Finding Code 08-82, 07-75, 06-76)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Recommendation:

We recommend IDOT implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations, federal funds received are deposited in an interest-bearing account, and interest is calculated and remitted to the U.S. Treasury as required under the regulations.

IDOT Response:

We concur. We will also implement procedures to ensure the homeland security funds received in advance are deposited in an interest bearing account and will track the interest earned in accordance with the regulations.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program

CFDA # and Program Expenditures: 20.106 (\$90,481,000)

Award Numbers: Various

Questioned Costs: None

Finding 08-83 *Inadequate Cash Management Procedures*

IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the US Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. The TSA specifies that IDOT draw funds for the Airport Improvement Program using the pre-issuance method, an advance funding technique. This method requires IDOT to request funds such that they are deposited in a state account not more than three days prior to the day the state makes a disbursement. During our review of 60 expenditures totaling approximately \$36,856,165, we noted warrants were not issued for 13 expenditure vouchers totaling approximately \$4,980,000 within three business days of receiving the federal funds intended to finance these expenditures. The number of days between receipt and the issuance of warrants ranged from four to 20 business days.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the US Treasury Regulations.

In discussing this condition with Department officials, they state that the Office of the Comptroller requires IDOT to draw down the federal funds and have them available at the time the vouchers are presented to the Comptroller for processing and payment. In order to comply with the Treasury-State Agreement (TSA) requirement that IDOT draws funds for the Airport Improvement Program by using the pre-issuance method requiring the requested funds are deposited in a state account not more than three days prior to the day the state makes a disbursement, the Division of Aeronautics has adopted a procedural change to draw down the federal funds from ECHO/Delphi after confirmation with the Bureau of Business Services FOA system to determine that the schedule has been vouchered before processing a Letter of Credit draw down from ECHO/Delphi. This is the last step before the funds need to be available before dispersing the funds.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 08-83, 07-76)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Recommendation:

We recommend IDOT implement procedures to ensure cash draws are performed in accordance with US Treasury Regulations.

IDOT Response:

We concur. We will recalculate our clearance pattern for inclusion in the TSA agreement.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction

CFDA # and Program Expenditures: 20.106 (\$90,481,000)
20.205 (\$1,229,855,000)

Award Numbers: Various

Questioned Costs: None

Finding 08-84 *Inadequate Controls over Information Systems*

IDOT does not have adequate access, change management, and computer operations controls over the key systems that support the IDOT Integrated Transportation Project Management system.

The information technology systems that support the IDOT Integrated Transportation Project Management system include the following:

- The Electronic Contract Management System (ECM)
- The Electronic Letting Management System (ELM)
- The Illinois Construction Records System (ICORS)
- The Bureau of Contract Management System (BCM)
- The Fiscal Operations and Administration System (FOA)
- The Federal Payment Control System (FPC)

The ECM and ELM systems are used during the initial letting stages of the construction contract. The ECM houses the estimates made for the projects and the ELM system stores the bids from the contractors. The ICORS system is used by the resident engineers to record the progress of each job for billing purposes, which is interfaced with the BCM system. The data from the BCM system is interfaced with the FOA system to generate the payment to the contractor, and is also interfaced with the FPC system to generate the federal billing.

Requests for new system access, modification of current system access, or termination of access are initiated by the bureau chief designated as the Security Software administrator via the "User Request Form." This form is forwarded to the system owner who must review and approve the form, which is then sent to the Bureau of Information Processing for action. The change management and program development requests are initiated using an "Action Request" form, and require approval from the manager of the requesting user. Application enhancements or maintenance require testing prior to migration into the production environment. Frequency of backup for the systems is documented in the Disaster Recovery Plan.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

During our test work over the access, program change and development, and computer operations controls of the systems, we noted the following:

Plans, Policies and Procedures:

- The IDOT RACF Administration Guide was updated in 2008, however it is still in draft form.

Change Management Control:

- IDOT does not have a process in place to follow-up with CMS to review program changes requested by IDOT and migrated into production by CMS.

Access Control:

- Two of 25 terminated users tested still had active RACF IDs.
- Developers have access to move changes into production on the NOMAD platform, where the FPC system resides.

During our test work over access to specific applications, we obtained an overall list of users with access to the ELM, BCM, FOA and FPC systems and noted the following exceptions:

- Four users had access to the ELM system but did not have any job responsibilities related to the bidding process that would require such access.
- Twenty-one users had access to the BCM system, however it appears access may not be necessary as the IDs had not been used over an extended period of time, ranging from 10-18 months.
- Thirty-four users had access to the FOA system, however it appears access may not be necessary as the IDs had not been used over an extended period of time, ranging from 10-18 months.
- Three users tested had access to the FPC system but did not have any responsibilities related to the federal billing that would require such access. None of these users had accessed the FPC system during the audit period.

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

In discussing these conditions with IDOT officials, they state that IDOT has begun efforts to resolve the issues noted in the audit and implement improved RACF security measures to address the control items above.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 08-84, 07-77, 06-81, 05-82)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Recommendation:

We recommend IDOT implement procedures to ensure all information systems are adequately secured.

IDOT Response:

The Department agrees with the finding.

The Department is working on enhancements to the RACF Security Manual and policies to verify separated employees access has been removed from the systems within a designated timeframe. The Department continues to work with CMS pursuant to Public Act 93-0839 in which CMS has assumed responsibility for the statewide Information Technology infrastructure. The Department continues to work with CMS on communication notifications related to program changes CMS implements into production.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: Cannot be determined

Finding 08-85 Failure to Deposit Funds in an Interest-Bearing Account

IEMA did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2008, IEMA received approximately \$37,066,000 in draws under the Homeland Security Cluster program that were not deposited into an interest bearing account. Additionally, IEMA did not calculate or remit any potential interest liability owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated March, 2008, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter V.C.3 of the 2006 HSP Guidelines, and Appendix B, Section B, of the 2007 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IEMA personnel, they stated that the Agency believed that the intent of program guidance requiring the deposits into interest bearing accounts was for cash advancements and not payments considered to be reimbursements. IEMA had followed its procedures of weekly drawdown of federal funds to ensure that minimum cash is on hand for immediate payment or within 72 hours.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 08-85)

Recommendation:

We recommend IEMA deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

IEMA Response:

Accepted. The Agency will pursue the establishment of an interest bearing account through legislation as required by state law.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: None

Finding 08-86 *Failure to Obtain Suspension and Debarment Certifications from Vendors*

IEMA did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Homeland Security Grant program.

During our review of 30 vendors of the Homeland Security Grant program, we noted IEMA did not include a suspension and debarment certification in its vendor agreements. As a result, IEMA did not receive certifications that the vendors of the Homeland Security Grant program were not suspended or debarred from participation in Federal assistance programs. Additionally, IEMA did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for its vendors. During the year ended June 30, 2008, IEMA expended approximately \$690,000 to vendors of the Homeland Security Grant program.

According to 44 CFR 17.200, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with IEMA officials, they stated they believed the suspension and debarment language included in the contract which referred to the Illinois Compiled Statutes was adequate.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the payment of Federal funds to vendors that are suspended or debarred from participation in Federal assistance programs. (Finding Code. 08-86)

Recommendation:

We recommend IEMA establish procedures to ensure vendors certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

IEMA Response:

Accepted. The Agency has implemented procedures and now includes language to specifically refer to the federal law in all contracts that involve the use or disbursement of federal (Homeland Security) funds. The Agency is requiring its internal bureaus to more clearly indicate whether Federal funds are being used to procure goods and services. Further, Agency personnel may investigate via EPLS to verify whether a potential vendor is debarred or suspended from doing business with the Federal Government.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: None

Finding 08-87 *Inadequate On-Site Monitoring of Subrecipients*

IEMA is not performing on-site reviews of subrecipients receiving federal awards under the Homeland Security Cluster.

The Illinois Terrorism Task Force (ITTF) within IEMA passes through Homeland Security program funding to various local governments to develop, maintain, and improve the responsiveness of Illinois local governments to terrorist acts. A significant portion of the grants made to these subrecipients was intended to fund the purchase of special equipment to be used in the event of terrorist attacks. ITTF monitors its subrecipients by reviewing equipment invoices, expenditure reports, equipment inventory reports, and receiving OMB Circular A-133 audit reports. However, during our audit we noted IEMA did not perform on-site equipment observations during the year ended June 30, 2008.

Total federal awards passed through to subrecipients of the Homeland Security Cluster were approximately \$31,972,000 during the year ended June 30, 2008.

According to OMB Circular A-133 §__400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with IEMA officials, they stated they had recently developed on-site subrecipient monitoring procedures, however those procedures had not been implemented during the fiscal year ended June 30, 2008.

Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-87)

Recommendation:

We recommend IEMA perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

IEMA Response:

Accepted. IEMA believes that a good subrecipient monitoring program has been established. We acknowledge that additional site visits could be conducted, and the ITTF has established a policy for conducting them as well as developing a reporting form for the visits. However, we also believe that subrecipients are monitored by a variety of alternate means that are in some ways more effective than site visits. These methods include deployment exercises to stage response equipment at a central location for review and inspection and hands-on validation exercises for the special teams created, equipped, and trained by ITTF.

Additionally, IEMA has a robust informal monitoring program where program managers and other staff remain in close contact with subgrantees through telephone and e-mail interactions in addition to monthly ITTF meetings and subgrantee policy board meetings. In 2008, a staff member was assigned to the Chicago area to act as a direct point of contact for the Non-Profit and Transit subgrantees and as a resource for Chicago and Cook County UASI. Finally, IEMA pays most grant funds on a reimbursable basis after the subrecipient submits a valid vendor invoice or documentation of administrative costs, minimizing the risk of funds being expended for unallowable purposes.

Neither OMB Circular A-133, or any guidance from the awarding agency specifies that on-site monitoring is mandatory. The Compliance Supplement to Circular A-133 suggests that the SAA can review financial and progress reports submitted by subrecipients or schedule site visits to review records and observe operations. In addition they can review sub recipient's Single Audit reports. The level of scrutiny and type of monitoring activities are based on the risk assigned to the subgrantee and the complexity of the individual grant's compliance requirements. We believe that our interaction with subgrantees already has reduced that risk.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: None

Finding 08-88 *Inaccurate Federal Award Information Provided to Subrecipients*

IEMA did not provide accurate federal award information to the Illinois Department of Transportation (IDOT) resulting in an incorrect Catalog of Federal Domestic Assistance (CFDA) number being reported to subrecipients of the Homeland Security Cluster Program.

As the state agency responsible for administering the Homeland Security Cluster program, IEMA executed an interagency agreement with IDOT which documents various federal program requirements, including federal award information. During our review of the interagency agreement, we noted IEMA included the wrong CFDA number for one program (97.073 instead of 97.067). As a result, IDOT communicated the same incorrect CFDA number to three subrecipients for which it passed through approximately \$123,000 under this program during the year ended June 30, 2008.

According to OMB Circular A-133 §__.400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year.

In discussing these conditions with IEMA officials, they stated that based on conflicting information from the federal government, they believe that the CFDA number that was included in the grant agreement with IDOT was correct at the time the grant was issued. The fiscal year 2005 grant guidance actually listed two CFDA numbers. One (97.067) was on Page 10 of the guidance as the umbrella CFDA number for the entire Homeland Security Grant Program (HSGP). However, Page 2 listed individual CFDA numbers for each of the separate grant programs that make up the HSGP, including the State Homeland Security Program (97.073), the specific program from which the IDOT grant was issued.

Like fiscal year 2005, fiscal year 2006 listed 97.067 as a general CFDA number, but it did not mention that the specific grant numbers, including the State Homeland Security Program, had been migrated under 97.067. Not knowing that, IEMA continued to use the number that had been specifically assigned to the State Homeland Security Program in an attempt to be as specific as possible

Failure to inform subrecipients of accurate federal award information could result in subrecipients improperly reporting expenditures in their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 08-88)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Recommendation:

We recommend IEMA review its current process for preparing award notifications in interagency agreements to ensure all required information is properly communicated.

IEMA Response:

Accepted. We now are using the general CFDA number of 97.067.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: Cannot be determined

Finding 08-89 *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

IEMA provided funds to a subrecipient of the Homeland Security Cluster Program in excess of its immediate cash needs during the year ended June 30, 2008.

During the October, 2008, the Illinois Office of Internal Audit (IOIA) conducted a review of the Homeland Security Cluster Program. The draft audit report indicated on July 11, 2008 IEMA made a duplicate payment to a subrecipient totaling approximately \$2,600,000 and did not formally request the funds be returned until October 30, 2008, approximately 111 days after the duplicate payment was made.

According to 28 CFR 66.20(b)(7), grantees must implement procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement whenever advance payment procedures are used. Additionally, 28 CFR 66.37(a)(4) requires advances of grant funds to subgrantees to conform substantially to the same standards of timing that apply to cash advances by Federal agencies. Based upon discussions with Federal agencies, cash advances to subgrantees should be for immediate cash needs and should not exceed 30 days. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to ensure funds are not advanced to subrecipients in excess of immediate cash needs.

In discussing these conditions with IEMA officials, they stated the duplicate payment was the result of the City of Chicago submitting some invoices that previously had been submitted and reimbursed.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 08-89)

Recommendation:

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

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

IEMA Response:

Accepted. The duplicate payment was discovered by ITTF staff during a screening of payments for inventory control. We informed Chicago by letter of our intent to reduce their next reimbursement by the amount of the duplicate payment, and we did so.

The ITTF has adopted a policy stating that all invoices must be submitted for reimbursement within 60 days of receipt of the invoice to help reduce the risk of things like duplicate invoices being submitted from previous reimbursements. Also, bill payment procedures have been modified and an invoice-based transmittal worksheet has been developed for subgrantees to submit claims for reimbursement. Eventually, ITTF intends to migrate all invoices and payments into an automated grants management system (GMS) that has been in development for more than two years. The GMS will flag any duplicate invoice numbers upon entry and before payment, a further safeguard to prevent payments for duplicate invoices.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois State Police (State Police)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)

Award Numbers: 2004-GE-T4-0027/2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022

Questioned Costs: Cannot be determined

Finding 08-90 Failure to Deposit Funds in an Interest-Bearing Account

State Police did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2008, State Police received approximately \$1,131,000 in draws under the Homeland Security Cluster program that were not deposited into an interest bearing account. Additionally, State Police did not calculate or remit any potential interest liability owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated March, 2008, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter V.C.3 of the 2006 HSP Guidelines, and Appendix B, Section B, of the 2007 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with State Police personnel, they stated individuals responsible for the draws of these funds failed to notice this requirement.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 08-90)

Recommendation:

We recommend State Police deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

State Police Response:

We concur. The State Police will work with the lead agency in determining a resolution.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$8,785,000)
Award Numbers: None
Questioned Costs: None

Finding 08-91 *Inadequate Monitoring of Subrecipients*

SBOE is not performing on-site reviews of subrecipients receiving federal awards under the Help America Vote Act Requirements Payments (HAVA) program.

SBOE passed through approximately \$5,300,000 to subrecipients of the HAVA program during the year ended June 30, 2008. The majority of funding was passed through to local election authorities to implement voter education programs and to purchase equipment to improve the election systems in Illinois. As a pass-through entity, SBOE monitors subrecipients of the HAVA program by receiving and reviewing periodic expenditure reports. However, SBOE does not perform on-site reviews of its subrecipients.

According to OMB Circular A-133 __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated March 2008, a pass-through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved.

In discussing this condition with SBOE officials, they state that the agency is presently unable to do extensive on-site monitoring of sub-recipients due to the extremely limited staff resources available within the agency. In addition, the agency continues to feel that the extensive monitoring activities already performed by SBOE staff at the office level (desk reviews, documentation requirements and other policies/procedures) provide reasonable assurance of sub-recipient compliance with program guidelines.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-91, 07-81, 06-89)

Recommendation:

We recommend SBOE develop and implement formal monitoring procedures to perform on-site reviews to ensure subrecipients are administering its HAVA program in accordance with the applicable laws and regulations.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SBOE Response:

Concur – SBOE continues to assert that present sub-recipient monitoring activities in use by the agency (mandatory reporting, regular contact and other administrative means) provide reasonable assurance of sub-recipient compliance with program guidelines. After notification of the previous finding, SBOE staff requested documented guidance and information from the EAC regarding the proper content and process of a HAVA ‘site visit’; however, significant guidance and/or instruction regarding proper site visit procedures have not been received from the EAC.

SBOE wishes to work with the EAC and relevant auditing entities to develop a sub-recipient review program that satisfactorily monitors sub-recipient activities within present State budget, HAVA funds availability and operational manpower limitations. In speaking with the EAC this week, it was indicated the State of Texas had implemented a site monitoring program. After contacting Texas they have indicated they will provide some materials to us. The EAC also indicated they are in the process of preparing a Grants Manual which should be made available to the states later this year.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$8,785,000)
Award Numbers: None
Questioned Costs: None

Finding 08-92 *Failure to Obtain and Review Subrecipient OMB Circular A-133 Audit Reports*

SBOE did not obtain or review OMB Circular A-133 audit reports for subrecipients of the Help America Vote Act Requirements Payments (HAVA) program.

During our review of 30 subrecipient monitoring files for the HAVA program, we noted SBOE had not obtained or reviewed OMB Circular A-133 audit reports for any of the subrecipients selected for our testwork. Upon further review, we determined that OMB Circular A-133 audits reports had not been obtained or reviewed for any HAVA subrecipients. SBOE passed through approximately \$5,300,000 to subrecipients of the HAVA program during the year ended June 30, 2008.

According to OMB Circular A-133 §__.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated March 2007a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing this condition with SBOE officials, they state that qualifying sub-recipients are now required to submit copies of their A-133 audit reports to SBOE, per notification sent to all sub-recipient entities in August 2008.

Failure to obtain and review subrecipient OMB Circular A-133 audit reports may result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 08-92, 07-82)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Recommendation:

We recommend SBOE develop and implement procedures to ensure all subrecipients receiving federal awards have audits conducted in accordance with OMB Circular A-133. Such procedures should include provisions for:

- following up on delinquent reports
- performing desk reviews over the reports
- issuing management decisions within required timeframes
- following up on the subrecipient's implementation of its corrective action plan

SBOE Response:

Concur – SBOE implemented procedures in August 2008 to require that local jurisdiction Single Audit reports of HAVA activities (for those jurisdictions meeting the audit requirement) were submitted to SBOE in compliance with the March 2008 A-133 Compliance Supplement. Local jurisdictions now submit relevant Single Audit reports to SBOE. Presently, SBOE does not have sufficient operational manpower resources to perform comprehensive desk reviews of all submitted HAVA audit reports and ensure follow-up compliance by local jurisdictions (in addition to follow-up compliance performed by the jurisdiction's own auditing/oversight entities).

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$8,785,000)
Award Numbers: None
Questioned Costs: None

Finding 08-93 Failure to Meet HAVA Matching Requirement

SBOE failed to meet the matching requirement of its Help America Vote Act Requirements Payments (HAVA) program.

HAVA program regulations require the State to provide a matching contribution of five percent of total program expenditures. The matching contribution is required to be deposited into the fund established for the HAVA program (known as the Vote Fund) upon receipt of the federal share of program funding.

During our testwork, we noted the State appropriated \$5 million for the HAVA program; however, the amount appropriated was not sufficient to meet the matching requirement of \$5,189,000. The amount appropriated was incorrectly calculated as five percent of the federal portion of program funding versus as five percent of total program expenditures. In addition, the matching contribution was not deposited into the Vote Fund when HAVA funding was received. As a result, SBOE did not meet the matching requirement applicable to the HAVA program as of June 30, 2008.

According to HAVA Section 253(b)(5) (42 US Code 15403), the State must appropriate funds for carrying out the activities for which the requirements payment is made in an amount equal to five percent of the total amount to be spent for such activities (taking into account the requirements payment and the amount spent by the State). Additionally, HAVA Section 254 (b)(1) requires states to deposit the funds appropriated to match the requirements payments into a state election fund which is described as a fund established in the treasury of the State government and consisting of the following amounts: (1) amounts appropriated or otherwise made available by the State for carrying out the activities for which the requirements payment was made to the State; (2) the requirements payment made to the State; (3) such other amounts as may be appropriated under law; and (4) interest earned on deposits of the fund.

In discussing these conditions with SBOE officials, they stated that sufficient additional appropriation to fund this reimbursement was received in August 2008, and that refunding of the underfunded match payment (plus appropriate interest) was in process to the dedicated HAVA fund.

Failure to meet matching requirements results in lost interest earnings on HAVA program funds deposited in the Vote Fund. (Finding Code 08-93, 07-83, 06-93)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Recommendation:

We recommend SBOE deposit the required state matching contribution, as well as lost interest, into the Vote Fund.

SBOE Response:

Concur – In August 2008 SBOE received the necessary Fiscal Year 2009 appropriation authority to refund the calculated amount of State Match underfunding plus interest penalty (total of \$341,749) to the State's dedicated HAVA fund. Due to the State's ongoing fiscal crisis, a reimbursement check was not received from the State Comptroller until late January. After receipt by SBOE, the reimbursement check was deposited in the dedicated HAVA fund in late January 2009. Documentation of the Comptroller check and verification of deposit in the HAVA fund (Help Illinois Vote Fund – fund 206) are attached to this response.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Housing and Urban Development (USHUD)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
Community Development Block Grant
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Career and Technical Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families
Child Support Enforcement
Low-Income Home Energy Assistance
Community Services Block Grant
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children’s Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Social Security – Disability Insurance
Homeland Security Cluster
Disaster Grants Public Assistance (Presidentially Declared Disasters)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

CFDA # and Program Expenditures:	10.551/10.561 (\$1,779,116,000)
	10.553/10.555/10.556/10.559 (\$379,780,000)
	10.557 (\$206,089,000)
	10.558 (\$105,087,000)
	14.228 (\$27,121,000)
	17.207/17.801/17.804 (\$36,717,000)
	17.225 (\$2,183,718,000)
	17.245 (\$10,399,000)
	17.258/17.259/17.260 (\$144,845,000)
	20.106 (\$90,481,000)
	20.205 (\$1,229,855,000)
	84.010 (\$547,751,000)
	84.027/84.173 (\$488,402,000)
	84.032 (\$222,123,000)
	84.048 (\$44,315,000)
	84.126 (\$87,562,000)
	84.181 (\$17,755,000)
	84.287 (\$39,613,000)
	84.357 (\$31,809,000)
	84.367 (\$104,284,000)
	90.401 (\$8,785,000)
	93.044/93.045/93.053 (\$43,835,000)
	93.268 (\$61,525,000)
	93.283 (\$13,387,000)
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	93.563 (\$124,506,000)
	93.568 (\$137,933,000)
	93.569 (\$31,719,000)
	93.575/93.596 (\$206,438,000)
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	93.667 (\$127,372,000)
	93.767 (\$348,437,000)
	93.775/93.777/93.778 (\$6,607,985,000)
	93.917 (\$33,924,000)
	93.959 (\$78,421,000)
	96.001 (\$66,638,000)
	97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
	97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-94 Inadequate Process for Monitoring Internal Service Fund Balances

DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided. Because these rates are estimates and may be charged to the State's federal programs, DCMS is required to evaluate the fund balances within the internal service funds to ensure they do not exceed 60 days of cash expenses for normal operations incurred for the period.

During our audit, we noted DCMS had accumulated fund balances in its Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) funds in excess of amounts allowed under OMB Circular A-87 during state fiscal years 2004, 2005, 2006, and 2007. Upon further review, the fiscal year 2008 fund balances of these funds were determined to be in excess of amounts allowed under A-87. The excess fund balances, including prior year carryforward balances were estimated to be \$3,533,000 and \$9,789,000 as of June 30, 2008 for the CRF and SSRF, respectively.

Additionally, we noted DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items:

- Commission income totaling \$1,410,000 earned in CRF was not reported as revenue in the 2007 GAAP basis financial statements, but was reported for federal purposes in 2007;
- Encumbrances in the CRF totaling \$1,667,000 were properly not reported in the 2007 GAAP basis financial statements, but were reported for federal purposes in 2007;
- Increases of \$270,000 and \$161,000 in the compensated absences liability balances in CRF and SSRF, respectively, were reported in the fiscal year 2007 GAAP basis financial statements, but were not reported for federal purposes in 2007;
- Equipment totaling \$2,869,000 purchased in the CRF during the fiscal year 2007 lapse period was reported in the fiscal year 2007 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;
- Equipment totaling \$715,000 purchased in the SSRF during the fiscal year 2007 lapse period was reported in the fiscal year 2007 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes; and
- Accrued interest expense of \$1,041,000 in the Facilities Management Revolving Fund was reported in the fiscal year 2007 GAAP basis financial statements, but was not reported for federal purposes in 2007.

The majority of the differences identified above represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items identified above have not been associated with a specific billed service, we are unable to determine the impact of these items on the federal share of the excess fund balances.

According to the OMB Circular A-133 Compliance Supplement dated March 2008, working capital reserves (fund balances) are generally not allowed to exceed more than 60 days of cash expenses for normal operations. A working capital reserve exceeding 60 days may be approved by the cognizant federal agency. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal control should include establishing procedures to

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

evaluate and reconcile the fund balances of internal service funds on a periodic basis to identify whether amounts in excess of those allowed under federal regulations exist.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 08-94, 07-84, 06-95)

Recommendation:

We recommend DCMS establish a process for evaluating internal service fund balances and implement the necessary procedures to ensure these fund balances do not exceed the 60 day threshold allowed under OMB Circular A-87. DCMS should also implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

DCMS Response:

The Department concurs with the recommendations.

Fund Balances: The Department believes that its adjustment methods are acceptable. The Department does agree that adjustments should be timely. DCMS continues to adjust rates annually (c) and adjust central service cost allocations annually (d) to reduce exposure to excess balances. However, these annual adjustments cannot guarantee that excess balances will be entirely eliminated, since rates and costs are projections and are usage-sensitive. Billing credits (b), like cash refunds, take multiple years to apply, so the adjustment occurs no faster than a negotiated payback and requires significantly more up-front cash which the state does not have. Therefore, direct negotiated paybacks (a) have always been, and will likely continue to be, a part of the remedy for excess balances. The timeliness of direct paybacks is dependent on the federal review cycle. USDHHS includes imputed interest in the payback calculations in recognition of, and as compensation for, any delay in remedying the excess balances.

Reconciling Items: We have developed a more clear presentation of the reconciliation process for fiscal year 2008, and we are adjusting our practices where feasible to reduce the total number of reconciling items.

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For the Year Ended June 30, 2008

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Housing and Urban Development (USHUD)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
Community Development Block Grant
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Career and Technical Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families
Child Support Enforcement
Low-Income Home Energy Assistance
Community Services Block Grant
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children’s Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Social Security – Disability Insurance
Homeland Security Cluster
Disaster Grants Public Assistance (Presidentially Declared Disasters)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

CFDA # and Program Expenditures:	10.551/10.561 (\$1,779,116,000)
	10.553/10.555/10.556/10.559 (\$379,780,000)
	10.557 (\$206,089,000)
	10.558 (\$105,087,000)
	14.228 (\$27,121,000)
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	17.225 (\$2,183,718,000)
	17.245 (\$10,399,000)
	17.258/17.259/17.260 (\$144,845,000)
	20.106 (\$90,481,000)
	20.205 (\$1,229,855,000)
	84.010 (\$547,751,000)
	84.027/84.173 (\$488,402,000)
	84.032 (\$222,123,000)
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	93.775/93.777/93.778 (\$6,607,985,000)
	93.917 (\$33,924,000)
	93.959 (\$78,421,000)
	96.001 (\$66,638,000)
	97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
	97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-95 Inadequate Supporting Documentation for Payroll Costs

Adequate supporting documentation does not exist to substantiate payroll costs paid by the Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) which are allocated for reimbursement under federal programs operated by the State.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

During our audit testwork, we noted DCMS does not obtain effort certifications from employees who perform activities or services applicable to CRF and/or SSRF to verify that payroll expenditures reported in each of these funds correlate to the costs assignable to these funds. Specifically, we noted DCMS allocated 50% of the payroll costs for approximately 61 employees paid from SSRF to CRF and allocated 50% of the payroll costs for approximately 21 employees paid from CRF to SSRF. We noted the amounts allocated between the CRF and SSRF funds approximated \$1,791,000 and \$782,000, respectively. Total payroll and fringe benefit expenditures reported in CRF and SSRF during the year ended June 30, 2007 were \$20,717,000 and \$57,777,000, respectively.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that the expenditure be adequately documented. If an employee works on multiple activities, monthly personnel activity reports must be completed and signed by the employee. The personal activity report is required to be an after-the-fact distribution of effort and must account for 100% of the employee's activity.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Inadequate documentation for payroll expenditures may result in federal funds being expended for unallowable purposes. (Finding Code 08-95, 07-85)

Recommendation:

We recommend DCMS obtain effort certifications or personal activity reports where required for payroll and fringe benefit expenditures allocated to its federal programs through internal service fund charges.

DCMS Response:

The Department concurs with the recommendation, and has already changed this process for the fiscal year 2008 federal reporting period.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Housing and Urban Development (USHUD)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
Community Development Block Grant
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
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Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Career and Technical Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families
Child Support Enforcement
Low-Income Home Energy Assistance
Community Services Block Grant
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children’s Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Social Security – Disability Insurance
Homeland Security Cluster
Disaster Grants Public Assistance (Presidentially Declared Disasters)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

CFDA # and Program Expenditures:	10.551/10.561 (\$1,779,116,000)
	10.553/10.555/10.556/10.559 (\$379,780,000)
	10.557 (\$206,089,000)
	10.558 (\$105,087,000)
	14.228 (\$27,121,000)
	17.207/17.801/17.804 (\$36,717,000)
	17.225 (\$2,183,718,000)
	17.245 (\$10,399,000)
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	20.106 (\$90,481,000)
	20.205 (\$1,229,855,000)
	84.010 (\$547,751,000)
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	90.401 (\$8,785,000)
	93.044/93.045/93.053 (\$43,835,000)
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	93.558 (\$537,011,000)
	93.563 (\$124,506,000)
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	93.775/93.777/93.778 (\$6,607,985,000)
	93.917 (\$33,924,000)
	93.959 (\$78,421,000)
	96.001 (\$66,638,000)
	97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
	97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-96 Unallowable Costs Recorded in Internal Service Funds

DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided based upon the costs recorded in its internal service funds.

During our audit, we noted other auditors had identified that DCMS had recorded unallowable costs in each of its internal service funds. Specifically, the auditors judgmentally selected a sample of 30 cash disbursements (totaling \$1,510,022) from DCMS' internal service funds and found five of the disbursements tested (totaling \$1,433) were for costs that did not pertain to the fund in which they were recorded or were not necessary or reasonable in relation to the services provided by the fund. Total expenditures recorded in these funds approximated \$686,450,000.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure only allowable costs are charged to internal service funds.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines for the majority of these expenditures.

Failure to properly determine the allowability of costs in accordance with federal regulations may result in unallowable costs being claimed to federal programs. (Finding Code 08-96, 07-86)

Recommendation:

We recommend DCMS implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

DCMS Response:

The Department concurs with the recommendation. For administrative purposes, certain small expenditures supporting multiple funds are targeted to individual appropriations, but only allowable expenditures pertaining to fund operations are included in cost recovery/rates.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Housing and Urban Development (USHUD)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
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Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
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Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
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Federal Family Education Loans – Guaranty Program
Career and Technical Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Twenty-First Century Community Learning Centers
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Improving Teacher Quality State Grants
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
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Community Services Block Grant
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children’s Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Social Security – Disability Insurance
Homeland Security Cluster
Disaster Grants Public Assistance (Presidentially Declared Disasters)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

CFDA # and Program Expenditures: 10.551/10.561 (\$1,779,116,000)
10.553/10.555/10.556/10.559 (\$379,780,000)
10.557 (\$206,089,000)
10.558 (\$105,087,000)
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17.207/17.801/17.804 (\$36,717,000)
17.225 (\$2,183,718,000)
17.245 (\$10,399,000)
17.258/17.259/17.260 (\$144,845,000)
20.106 (\$90,481,000)
20.205 (\$1,229,855,000)
84.010 (\$547,751,000)
84.027/84.173 (\$488,402,000)
84.032 (\$222,123,000)
84.048 (\$44,315,000)
84.126 (\$87,562,000)
84.181 (\$17,755,000)
84.287 (\$39,613,000)
84.357 (\$31,809,000)
84.367 (\$104,284,000)
90.401 (\$8,785,000)
93.044/93.045/93.053 (\$43,835,000)
93.268 (\$61,525,000)
93.283 (\$13,387,000)
93.558 (\$537,011,000)
93.563 (\$124,506,000)
93.568 (\$137,933,000)
93.569 (\$31,719,000)
93.575/93.596 (\$206,438,000)
93.658 (\$172,144,000)
93.659 (\$87,313,000)
93.667 (\$127,372,000)
93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)
93.917 (\$33,924,000)
93.959 (\$78,421,000)
96.001 (\$66,638,000)
97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-97 Inadequate Process for Billing Costs to Users

DCMS does not have an adequate process in place to bill State agencies for the use of services from the Statistical Services Revolving Fund (SSRF).

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

During our audit testwork, we noted certain State agencies using SSRF information technology services were billed in an inconsistent manner. Specifically, State agencies whose information technology services were consolidated into DCMS during fiscal year 2007 in accordance with Public Act 93-25, were billed the payroll and fringe benefit costs of the information technology personnel previously assigned to the State agency in a consolidated amount rather than at the rates established by CMS for the specific unit of service provided. We noted the units of services and rates calculated for each of the affected State agencies were specific to the State agency and were not calculated using the same methodology used to establish the standard SSRF billing rates. The State agencies subject to the consolidated billing process included the Illinois Department of Human Services, the Department of Public Health, the Department of Healthcare and Family Services, the Department of Revenue and the Department of Transportation. The amounts billed to State agencies using the consolidated billing approach totaled \$8,817,000 for the year ended June 30, 2008.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. In accordance with Attachment C, Section C, to be allowable under federal awards, central service cost allocation plan must include all central service costs that will be claimed (either as a billed or an allocated cost). Section II of the Cost Allocation Agreement dated July 23, 2008 (covering the year ending June 30, 2008) categorizes services from the Statistical Services Revolving Fund as billed services. Section III of this Agreement states that billed cost services are required to be billed in accordance with the rates established by the State.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure internal service fund costs are billed in a manner consistent with the Cost Allocation Agreement.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guideline.

Failure to properly bill internal service fund costs in accordance with the approved Cost Allocation Agreement and federal regulations may result in unallowable costs being claimed to federal programs. (Finding Code 08-97, 07-87)

Recommendation:

We recommend DCMS ensure that all State agencies are billed internal service fund costs in a consistent manner in accordance with OMB Circular A-87.

DCMS Response:

The Department partially concurs. The auditor's assertion is that any form of pass through charges is unallowable. We can find no language in A-87 prohibiting such billings. A direct billing is an individual rate for a dedicated service, and includes measured usage of that service. Further, the Department generally describes its billing methodology for pass through charges in its SWCAP submission.

The Department does agree that pass through charges should be minimized, and the charges referenced in the finding above were entirely eliminated in fiscal year 2009.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2008

Auditors' Comment:

As stated in the finding above, Section II of the Cost Allocation Agreement dated July 23, 2008 (covering the year ending June 30, 2008) categorizes services from the Statistical Services Revolving Fund as billed services and Section III of this Agreement states that billed cost services are required to be billed in accordance with the rates established by the State. Billing agencies directly for all payroll and fringe benefit costs associated with certain SSRF employees is not consistent with the rate setting methodology used to establish standard SSRF billing rates for similar services to other State agencies.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)

Prior Year Finding 07-02

IDHS did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-14

IDHS did not enforce sanctions required by the State Plan for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) program who did not cooperate with child support enforcement efforts. In the current audit period, IDHS implemented procedures to ensure sanctions were enforced when beneficiaries failed to cooperate with child support enforcement.

Prior Year Finding 07-17

IDHS did not follow its established policies and procedures for performing on-site monitoring reviews of subrecipients of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation) and Child Care Development Fund Cluster (Child Care) programs. In the current audit period, IDHS performed on-site monitoring reviews consistent with its established policies and procedures.

Prior Year Finding 07-18

IDHS provided funds to subrecipients of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation) program in excess of their immediate cash needs during the year ended June 30, 2007. In the current audit period, IDHS implemented procedures to limit advances to the immediate cash needs of VR subrecipients.

Prior Year Finding 07-21

IDHS did not adequately coordinate benefits paid on the behalf of beneficiaries of the Temporary Assistance for Needy Families (TANF) and Child Care Development Fund Cluster (Child Care) programs. In the current audit period, IDHS implemented procedures to coordinate benefits paid on the behalf of the TANF and Child Care beneficiaries.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For Year Ended June 30, 2008

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

Prior Year Finding 07-30

DHFS did not follow up on on-site monitoring review findings of subrecipients of the Low Income Home Energy Assistance Program (LIHEAP). In the current audit period, DHFS implemented procedures to follow up on on-site monitoring review findings for LIHEAP subrecipients.

Prior Year Finding 07-31

DHFS did not have an adequate process to ensure that subrecipients of the Low Income Home Energy Assistance Program (LIHEAP) have complied with OMB Circular A-133 audit requirements. In the current audit period, DHFS implemented procedures to collect and review OMB Circular A-133 reports from LIHEAP subrecipients.

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

Prior Year Finding 07-03

DCFS did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-35

DCFS made recurring and nonrecurring payments of adoption assistance benefits that were not properly supported by adoption assistance agreements. In the current audit period, DCFS implemented additional review procedures to ensure payments of adoption assistance benefits were properly supported by adoption assistance agreements.

Prior Year Finding 07-37

DCFS did not accurately allocate costs to its federal program in accordance with the Public Assistance Cost Allocation Plan (PACAP). In current audit period, DCFS allocated costs to its federal programs in accordance with the PACAP.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For Year Ended June 30, 2008

State Agency: Illinois Department of Public Health (IDPH)

Prior Year Finding 07-04

IDPH did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-47

IDPH did not provide subrecipients of the Immunization program with required federal award information. In the current audit period, USDHHS issued guidance that stated that there are no subrecipient relationships related to the Immunization Grants program. As a result, federal award information is not required to be provided.

State Agency: Illinois State Board of Education (ISBE)

Prior Year Finding 07-05

ISBE did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-51

ISBE did not properly allocate federal funds to subrecipients of the Reading First program during the year ended June 30, 2007. In the current audit period, ISBE modified the funding model in the State Plan to conform to the funding model used in practice. The revised State Plan was approved by the U.S. Department of Education.

Prior Year Finding 07-55

ISBE did not accurately report its state matching expenditures in the Annual Report of State Revenue Matching (FNS-13) for the year ended June 30, 2007. In the current audit period, ISBE implemented procedures to ensure that state matching expenditures used to meet the maintenance of effort requirement of the TANF program were not reported on the FNS-13 report.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For Year Ended June 30, 2008

State Agency: Illinois Community College Board (ICCB)

Prior Year Finding 07-57

ICCB did not adequately document on-site fiscal and administrative reviews of subrecipients receiving federal awards for the Vocational Education – Basic Grants to States (post-secondary education) program. In the current period, ICCB suspended its on-site fiscal and administrative reviews in order to re-design its on-site review process as noted in finding 08-58.

State Agency: Illinois Student Assistance Commission (ISAC)

Prior Year Finding 07-58

ISAC did not comply with the regulations regarding the submission and processing of reinsurance claims. In the current audit period, ISAC received notification from the USDE that the post-claims review process implemented in the second quarter of calendar year 2006 is acceptable.

State Agency: Illinois Department of Employment Services (IDES)

Prior Year Finding 07-07

IDES did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-61

IDES did not properly calculate benefit payments and was unable to locate case file documentation supporting client eligibility determinations for the Trade Adjustment Assistance (TAA) program. In the current period IDES properly calculated benefit payments and had documentation supporting the client eligibility determinations for the TAA program.

Prior Year Finding 07-64

IDES did not implement formal review and approval procedures for the ETA 563 performance report submitted for the Trade Adjustment Assistance (TAA) program. In the current period IDES documented the supervisory review of the ETA 563 performance report.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For Year Ended June 30, 2008

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

Prior Year Finding 07-68

DCEO did not perform the required annual on-site monitoring of local workforce areas receiving federal awards under the Workforce Investment Act Cluster (WIA) program. In the current audit period, on-site monitoring was performed, however DCEO did not adequately document the supervisory reviews of the on-site monitoring procedures and did not communicate the resulting findings on a timely basis. See finding 08-77

State Agency: Illinois Department of Transportation (IDOT)

Prior Year Finding 07-06

IDOT did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-69

IDOT did not obtain required certifications that subrecipients were not suspended or debarred from participation in the Federal assistance programs for the Airport Improvement Program. In the current period IDOT included the required certifications in the standard subrecipient agreements for the Airport Improvement Program.

Prior Year Finding 07-71

IDOT did not perform on-site reviews of subrecipients receiving federal awards under the Homeland Security Cluster program. In the current period, IDOT conducted on-site monitoring procedures for subrecipients under the Homeland Security Cluster program.

Prior Year Finding 07-74

IDOT did not test materials used for construction activities under the Highway Planning and Construction Program in accordance with their approved sampling and testing program. In the current period, IDOT tested materials used for construction activities in accordance with their approved sampling and testing program.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For Year Ended June 30, 2008

State Agency: Illinois Emergency Management Agency (IEMA)

Prior Year Finding 07-08

IEMA did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. See finding 08-01.

Prior Year Finding 07-78

IEMA did not have adequate procedures in place to ensure cash draws are performed in accordance with Homeland Security Cluster program regulations. Specifically, IEMA did not monitor the other state agencies to ensure cash advances were only for immediate cash needs, IEMA did not ensure cash requests were drawn from the appropriate grant award, and IEMA did not require a formal independent supervisory review of its cash draw calculations and related monthly reconciliations. In the current period, IEMA revised its procedures for cash draws to ensure cash advances to state agencies were only for immediate cash needs and to ensure cash requests were drawn from the appropriate grant awards. Additionally, IEMA implemented a formal independent supervisory review of its cash draw calculations and related monthly reconciliations.

Prior Year Finding 07-79

IEMA did not provide subrecipients of the Homeland Security Cluster program with the required federal award information (the Catalog of Federal Domestic Assistance (CFDA) title and number). In the current period, IEMA provided the required federal award information (CFDA title and number) to its subrecipients of the Homeland Security Cluster program.

State Agency: Illinois State Police (State Police)

Prior Year Finding 07-80

State Police did not minimize the time elapsing between the draw down of federal funds from the US Treasury and their disbursement for program purposes under the Homeland Security Cluster program. In the current period, State Police modified its voucher processing procedures to ensure vouchers for the Homeland Security Cluster program were processed within the required timeframe under the Homeland Security Cluster program regulations.