



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE OF ILLINOIS STATEWIDE SINGLE AUDIT REPORT

SINGLE AUDIT

For the Year Ended June 30, 2014

Release Date: March 31, 2015

FINDINGS THIS AUDIT: 69				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	20	36	56	2013	6, 7, 12, 49, 50, 54	48, 65	
Category 2:	2	11	13	2012	5, 13, 21, 29, 42, 55, 62, 63	17, 30, 45, 68	
Category 3:	0	0	0	2011	8, 9, 14, 33, 52, 56, 58, 61	24	
TOTAL	22	47	69	2010	19, 20, 59, 66, 69		
FINDINGS LAST AUDIT: 74				2009	23	64, 67	
				2008		47	
				2007	3, 32		
				2005	31	53	
				2004	60		
				2003	2		
				2002	1		
				2001	4		
				1999	28		

SYNOPSIS

- The State expended approximately \$23.6 billion from federal awards in FY14.
- A total of 33 programs or program clusters were classified and audited as major programs at fourteen (14) State agencies. These programs constituted approximately 95.5% of all federal spending, or about \$22.6 billion.
- Overall, 44 State agencies expended federal financial assistance in FY14. Eleven (11) State agencies accounted for about 98.5% of federal dollars spent.

Statewide Finding – Financial Reporting

- The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate Schedule of Expenditures of Federal Awards. As a result, the State has a *material weakness* on all federal programs for financial reporting.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with laws and regulations.

Significant Agency Findings Classified as a *Material Weakness* Resulting in an Auditor Qualification

- The Department of Human Services (DHS) has *material weaknesses* for:
 - failing to perform eligibility redeterminations within the timeframes prescribed by regulation for the Temporary Assistance for Needy Families (TANF), Children’s Health Insurance Program (CHIP), and Medicaid Cluster programs.
 - inadequately maintaining and controlling beneficiary case file documents of the TANF, CHIP and Medicaid Cluster programs.
 - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the TANF, CHIP and Medicaid Cluster programs.
 - making an improper payment to a beneficiary of the TANF Cluster program.

- The Department of Healthcare and Family Services (HFS) has a *material weakness* for:
 - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the CHIP and Medicaid Cluster programs.

- The Department of Insurance has *material weaknesses* for:
 - failing to maintain supporting documentation to substantiate payroll costs claimed for federal reimbursement under the State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges (ACA Exchanges) program.
 - failing to maintain support for certain costs charged to the ACA Exchanges program.
 - failing to establish adequate subrecipient monitoring procedures for the ACA Exchanges program.

- The Department of Transportation has *material weaknesses* for:
 - not obtaining certified payrolls prior to making grant payments to contractors for the Highway Planning and Construction Cluster (Highway Planning) and Surface Transportation Discretionary Grants for Capital Investment (TIGER) programs.
 - failing to maintain documentation for construction projects in the Highway Planning and Construction Cluster in accordance with federal regulations.

Findings Regarding American Recovery and Reinvestment Act (ARRA) and the Federal Funding Accountability and Transparency Act (FFATA)

- The Department of Transportation (DOT) failed to communicate ARRA information and requirements to subrecipients of the TIGER program.

- The Department of Human Services (DHS), Healthcare and Family Services (DHFS), Children and Family Services (DCFS), Insurance (DOI), State Board of Education (ISBE) and Emergency Management Agency (IEMA) had inadequate processes to report subaward information required by the Federal Funding Accountability and Transparency Act (FFATA).

{Financial Activities and Statistical Information are summarized on the next page.}

STATE OF ILLINOIS
STATEWIDE SINGLE AUDIT
For the Year Ended June 30, 2014

FINANCIAL ACTIVITIES (Amounts in Thousands)	Amount	Percent
EXPENDITURES BY PROGRAM		
Major Programs:		
Medicaid Cluster.....	\$ 9,349,285	39.58%
Supplemental Nutrition Assistance Program (SNAP Cluster).....	3,327,899	14.09%
Unemployment Insurance.....	2,935,876	12.42%
Highway Planning and Construction.....	1,448,578	6.13%
Title I Grants to Local Educational Agencies.....	728,931	3.08%
Child Nutrition Cluster.....	658,527	2.79%
Temporary Assistance for Needy Families.....	583,942	2.47%
Special Education Cluster.....	526,753	2.23%
Children's Health Insurance Program.....	318,309	1.35%
Low-Income Home Energy Assistance.....	207,915	0.88%
Child Care Development Funds Cluster.....	205,495	0.87%
Special Supplemental Nutrition Program for Women, Infants & Children.....	201,331	0.85%
Federal Family Education Loans.....	199,979	0.85%
Foster Care - Title IV-E.....	184,649	0.78%
High Speed Rail Corridors and Intercity Passenger Rail Service Capital Asssitance Grants.....	150,171	0.64%
Child and Adult Care Food Program.....	136,077	0.58%
Child Support Enforcement.....	133,382	0.56%
Rehabilitation Services - Vocational Rehabilitation Grants to States.....	124,506	0.53%
Improving Teacher Quality State Grants.....	114,727	0.49%
Workforce Investment Act Cluster.....	111,861	0.47%
Immunization Cooperative Agreements.....	94,733	0.40%
Capitalization Grants for Clean Water State Revolving Funds.....	90,896	0.38%
CDBG - State Administered Small Cities Program Cluster.....	89,756	0.38%
Disability Insurance/SSI Cluster.....	83,518	0.35%
Adoption Assistance.....	78,026	0.33%
Homeland Security Cluster.....	75,635	0.32%
Block Grants for Prevention and Treatment of Substance Abuse.....	65,475	0.28%
Social Services Block Grant.....	65,133	0.28%
Capitalization Grants for Drinking Water State Revolving Funds.....	60,414	0.26%
Airport Improvement Program.....	58,711	0.25%
School Improvement Grants Cluster.....	53,550	0.23%
Twenty-First Century Community Learning Centers.....	51,680	0.22%
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges.....	46,491	0.20%
Total Major Programs.....	<u>22,562,211</u>	<u>95.52%</u>
Non-Major Programs.....	<u>1,059,198</u>	<u>4.48%</u>
TOTAL EXPENDITURES.....	<u>\$ 23,621,409</u>	<u>100.00%</u>

FEDERAL AGENCIES PROVIDING FUNDING (Amounts in Thousands)	Total	Major Program Expenditures
U.S. Department of Health and Human Services.....	\$ 11,686,705	\$ 11,332,835
U.S. Department of Agriculture.....	4,375,740	4,323,834
U.S. Department of Labor.....	3,111,651	3,047,737
U.S. Department of Education.....	1,962,786	1,800,126
U.S. Department of Transportation.....	1,737,065	1,657,460
U.S Environmental Protection Agency.....	192,352	151,310
U.S. Department of Homeland Security.....	140,924	75,635
U.S. Department of Housing and Urban Development.....	97,371	89,756
Social Security Administration.....	83,678	83,518
All Other Federal Agencies.....	233,137	0
TOTAL EXPENDITURES.....	<u>\$ 23,621,409</u>	<u>\$ 22,562,211</u>

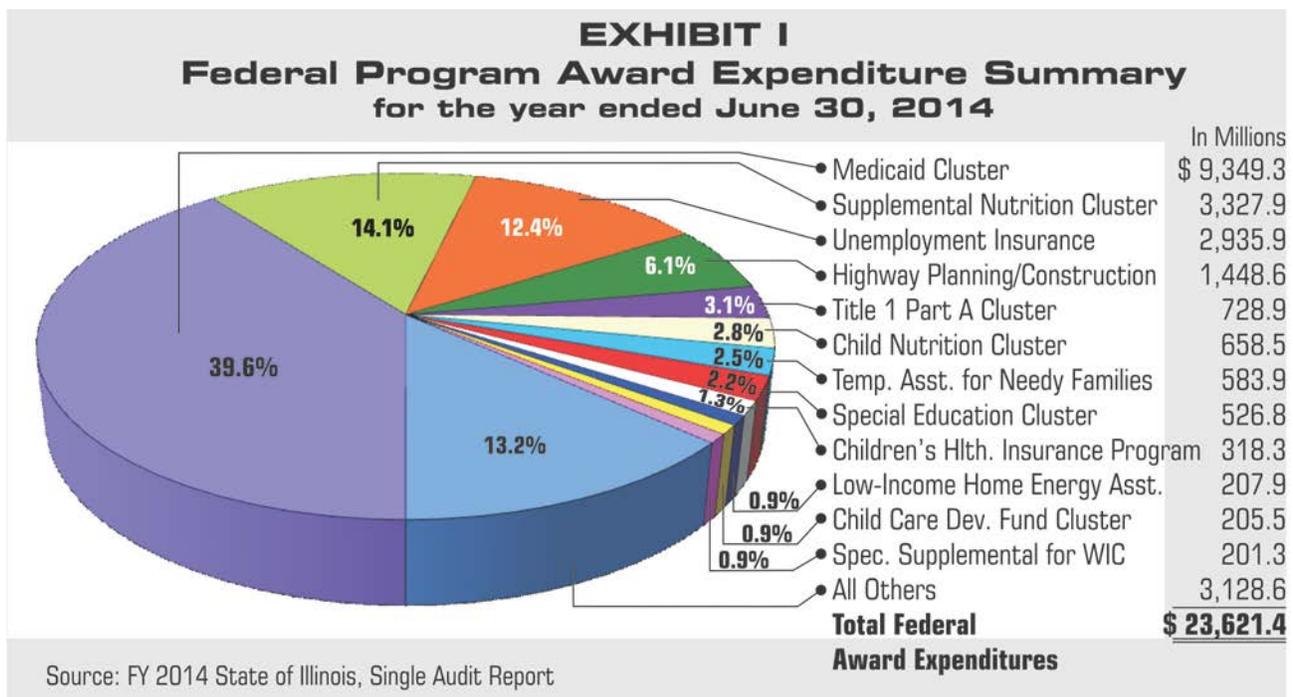
STATISTICAL INFORMATION		
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....	384	
Number of Federal Programs or Program Clusters Audited.....	33	
Total Number of State Agencies Spending Federal Funds.....	44	
Number of State Agencies for Single Audit Requirements (including finding follow-up).....	18	
Total American Recovery and Reinvestment Act (ARRA) Expenditures (in thousands).....	237,890	
Percentage of ARRA Expenditures.....	1.01%	

INTRODUCTION

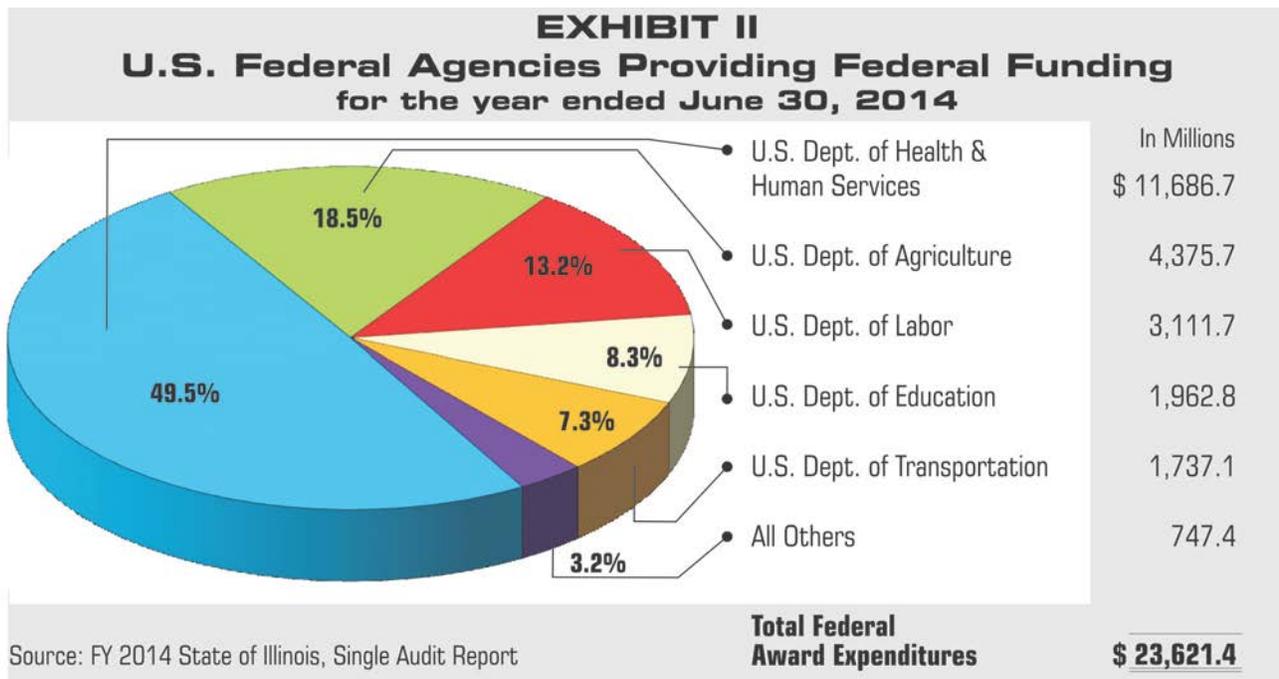
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY14 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes State agencies that are a part of the primary government and expend federal awards. In total, 44 State agencies expended federal financial assistance in FY14. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits when required.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of approximately \$23.6 billion for the year ended June 30, 2014. Overall, the State participated in 384 different federal programs, however, 12 of these programs or program clusters accounted for approximately 86.8% of the total federal award expenditures. (See Exhibit I)



The funding for the 384 programs was provided by 23 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY14.

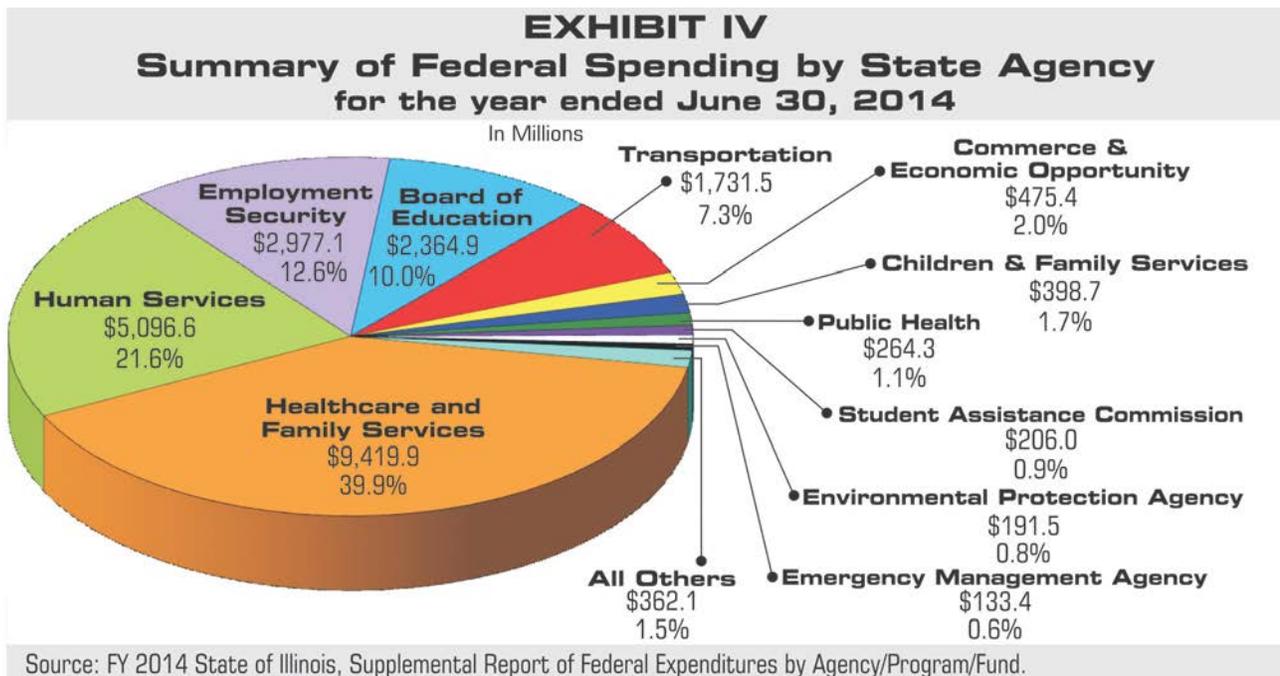


A total of 33 federal programs or program clusters were identified as major programs in FY14. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

EXHIBIT III
Classification of Federal Programs
“Major vs. Non-Major”
and Related Federal Award Expenditures
for the year ended June 30, 2014

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs (or clusters)	33	\$22,562.2	95.5%
Non-Major Programs (or clusters)	351	1,059.2	4.5%
Total	<u>384</u>	<u>\$23,621.4</u>	<u>100.0%</u>

Eleven State agencies accounted for approximately 98.5% of all federal dollars spent during FY14 as depicted in Exhibit IV.



AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE

The auditors' report contained qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 25-28 of the audit.

Qualifications (Noncompliance)

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

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2014-002	40-43
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-002	40-43
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-002	40-43
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2014-003	44-46
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-003	44-46

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-003	44-46
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2014-004	47-50
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-004	47-50
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-004	47-50
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	2014-005	51-52
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-018	83-85
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2014-018	83-85
IL Department of Insurance	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Reporting	2014-034	117-118
IL Department of Insurance	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Allowable Costs/Cost Principles	2014-035	119-120
IL Department of Insurance	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Subrecipient Monitoring	2014-036	121-122
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Davis-Bacon Act	2014-056	163-164
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles	2014-057	165-166

Internal Control Over Financial Reporting

We noted a matter involving internal control over financial reporting for the Schedule of Expenditures of Federal Awards (Schedule) that was considered to be a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's Schedule will not be prevented, or detected and corrected on a timely basis. The auditors noted that during the past twelve years there have been various errors identified and reported on the audits of State agencies and the Office of the State Comptroller (IOC) in its annual data gathering on the SCO forms that are used to present the Schedule. Thus, the auditors recommended the Office of the Governor and the Illinois Office of the Comptroller work together with the State agencies to establish a corrective action plan to address the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the Schedule.

Internal Control Over Compliance

We noted certain matters involving internal control over compliance that were considered to be significant deficiencies. A control deficiency in an entity’s internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Overall, 13 of the 69 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. Overall, 56 of the 69 findings reported in the single audit were classified as a material weakness.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

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

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller/Office of the Governor	1	1	32-34
Human Services	16	12	40-82
Healthcare and Family Services	7	5	83-97
Children and Family Services	6	3	98-109
Public Health	3	3	110-116
Insurance	7	0	117-130
State Board of Education	5	2	131-141
Student Assistance Commission	3	2	142-147
Employment Security	5	4	148-158
Commerce and Economic Opportunity	2	2	159-162
Transportation	10	9	163-182
Emergency Management Agency	3	3	183-188
Governor’s Office of Management and Budget	<u>1</u>	<u>1</u>	189-190
Totals	<u>69</u>	<u>47</u>	

Exhibit VI summarizes the total number of findings, number of repeated findings and the percentage of repeated findings for the past ten years.

EXHIBIT VI
Ten Year Analysis of Number of Findings, Number of Findings Repeated and Percentage of Repeat Findings

Year	Number of Findings	Number of Repeated Findings	Percentage of Repeated Findings
2014	69	47	68%
2013	74	59	80%
2012	91	63	69%
2011	101	71	70%
2010	103	64	62%
2009	93	65	70%
2008	97	58	60%
2007	87	59	68%
2006	95	55	58%
2005	101	44	44%

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

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 Schedule of Expenditures of Federal Awards in a timely manner.

Accurate 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 towards major State agencies under the organizational structure of the Office of the Governor and towards the Office of the State Comptroller (IOC).

State has not solved the problems

The IOC has made significant changes to the system used to compile financial information; however, the State has not solved all the problems to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post-audit program being a part of the internal control over financial reporting even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post-audit function is not and should not be an internal control mechanism for any operational activity related to financial reporting.

Highly decentralized financial reporting process

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare financial reporting packages designed by the IOC. These financial reporting packages are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding 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 the Comptroller.

Although these financial reporting packages are subject to review by the IOC's financial reporting staff during the CAFR preparation process, the current process lacks sufficient internal controls at State agencies which has resulted in adjustments relative to the SEFA over the past several years. In addition, internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past twelve 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 and the identification of major programs.

Errors identified at DHS, HFS, DCFS, ISBE, IDES, DCEO and DOT

Errors identified in the SEFA reporting process in the current year include corrections and unreconciled amounts identified in agency level findings for the Illinois Department of Human Services (Finding Code 2014-006), the Illinois Department of Healthcare and Family Services (Finding Code 2014-022), the Illinois Department of Children and Family Services (Finding Code 2014-026), the Illinois State Board of Education (Finding Code 2014-041), the Illinois Department of Employment Security (Finding Code 2014-050), the Illinois Department of Commerce and Economic Opportunity (Finding Code 2014-054), and the Illinois Department of Transportation (Finding Code 2014-058). Additionally, other correcting entries were required in order to accurately state the financial information provide by various other State agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the SEFA may prevent the State from completing an audit in accordance with timelines set forth in OMB Circular A-133 and may result in the suspension of federal funding. (Finding 1, pages 32-34) **This finding was first reported in the Statewide Single Audit in 2002.**

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

Governor will continue to address the core issues regarding the quality of accounting information

The Office of the Governor agreed with the recommendation and stated they will continue to work with the Office of the State Comptroller to address the core issues regarding the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the SEFA. (*For previous agency response, see Digest Footnote #1.*)

State Comptroller will work with Governor's Office and Financial Reporting Standards Board to meet objective

The State Comptroller's Office accepted the recommendation and stated the audit of the 2014 and 2013 SEFA was completed approximately two months earlier than the audit of the 2012 SEFA. Additionally, they stated the old and antiquated patchwork of existing payment processing and financial reporting systems needs to be replaced with new statewide accounting and grants management system that is designed to provide the information needed to complete the SEFA report and to improve the quality of the accounting information provided to the IOC and that they will work with the Governor's Office and the Financial Reporting Standards Board to meet this objective. (*For previous agency response, see Digest Footnote #1.*)

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

**DHS delinquent in performing
recipient eligibility redeterminations**

The Department of Human Services (DHS) did not perform eligibility redeterminations for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) Cluster, Children’s Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

During our testwork of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility redeterminations of individuals for the three programs during June 2014 as follows:

TANF	6,516 of 48,761 cases	13.36%
CHIP	77,674 of 873,092 cases	8.90%
Medicaid	144,312 of 483,310 cases	29.86%

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 2, pages 40-43) **This finding was first reported in the Statewide Single Audit in 2003.**

**Auditor qualification due to
untimely eligibility redeterminations**

As a result of DHS’ failure to perform timely redeterminations of recipient eligibility, the auditors qualified their opinion on the TANF, CHIP and Medicaid programs.

We recommended DHS 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.

**DHS agreed with the auditors
recommendation**

DHS officials agreed with the recommendation and stated they will continue to work with the Department of Healthcare and Family Services to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes. (For previous agency response, see Digest Footnote #2.)

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

The Department of Human Services (DHS) does not have appropriate controls over case file records maintained at its local offices for beneficiaries of the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Children’s Health Insurance Program (CHIP), and Medicaid Cluster programs.

Inadequate control over beneficiary records

During our testwork at five separate local offices, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for loss of such records. Specifically, in the five local offices, case files were 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. The amount of questioned costs that may be assessed the State due to lost or misplaced beneficiary files could not be determined for these four major programs whose total beneficiary spending exceeds \$8.9 billion in the aggregate.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs. (Finding 3, pages 44-46) **This finding was first reported in the Statewide Single Audit in 2007.**

Auditor qualification due to shortfall in control over case file records

As a result of DHS' failure to properly maintain and control case file records of beneficiaries, the auditors qualified their opinion on the TANF, CHIP and Medicaid Cluster programs.

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

DHS agreed with the auditors recommendation

DHS officials agreed with the recommendation stating they continue to place a high priority on proper case file maintenance given their current fiscal, staffing and space constraints. DHS officials also stated they are now utilizing an electronic document management system that is capturing a portion of the information that was previously printed and stored in a paper case file which is assisting in the reduction of the overwhelming size and amount of paper files in the offices. *(For previous agency response, see Digest Footnote #3.)*

MISSING DOCUMENTATION IN BENEFICIARY ELIGIBILITY FILES

Case file documentation to support eligibility could not be located

The Department of Human Services (DHS) and the Department of Healthcare and Family Services (DHFS) could not locate case file documentation supporting eligibility determinations for beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our testwork of 50 TANF, 65 CHIP and 125 Medicaid beneficiary payments for compliance with eligibility

requirements and the allowability of the relevant benefits provided we noted the following exceptions:

Department of Human Services

- In 11 TANF case files, DHS could not locate the Responsibility Service Plan completed and signed by the beneficiary.
- In 1 TANF case, DHS could not provide evidence that DHS verified the beneficiary was engaged in the appropriate work activity.
- In 1 TANF Child Support Cooperation special test case, DHS could not provide evidence that proper follow-up had been performed after a Notice of Failure to Cooperate had been issued on the beneficiary's case.
- In 1 TANF Penalty for Refusal to Work special test case, DHS could not provide evidence that DHS verified the beneficiary's participation in program work activities.
- In 4 TANF Penalty for Refusal to Work special test cases, DHS could not locate the Responsibility Service Plan completed and signed by the beneficiary and no evidence could be provided to demonstrate IDHS appropriately verified the beneficiary's participation in program work activities.
- In 11 TANF Adult Custodial Parent of Child under Six When Child Care Not Available special test cases, IDHS could not provide evidence that DHS notified the beneficiary of reconciliation appointment notices before payment sanctions were levied.
- In 3 TANF Adult Custodial Parent of Child under Six When Child Care Not Available special test cases, DHS could not provide evidence that DHS had obtained birth verification documents for the child under six.
- In 13 CHIP and 17 Medicaid case files, DHS could not locate the redetermination application completed and signed by the beneficiary.
- In 13 CHIP and 22 Medicaid case files, DHS could not locate adequate documentation evidencing income and asset verification procedures were performed.
- In 4 CHIP and 3 Medicaid case files, DHS could not locate adequate documentation of residence verification of the beneficiary.
- In 5 Medicaid case files, DHS could not provide adequate documentation that the beneficiary assigned their right to collect medical benefit payments to the State of Illinois.

Information not completed or signed

Information could not be located

- In 7 CHIP case files, DHS could not provide adequate documentation that cross match verifications were performed to verify the beneficiary's eligibility.
- In 2 CHIP case files, DHS could provide adequate documentation that citizenship verifications were performed to verify the beneficiary's eligibility
- In 4 CHIP case files, DHS could not provide adequate documentation that beneficiary's Social Security number was verified to be valid.

Department of Healthcare and Family Services

- In 1 CHIP case file, DHFS could not locate documentation supporting the eligibility determinations performed on or prior to the service dated sampled.
- In 6 CHIP case files, DHFS could not locate documentation supporting the completion of redetermination procedures.
- In 1 CHIP case file, DHFS did not complete redetermination procedures within required time frames.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs.

(Findings 4 and 18, pages 47-50 and 83-85, respectively)

This finding was first reported in the Statewide Single Audit in 2001 for DHS.

Auditors qualified their report on TANF, CHIP and Medicaid programs

As a result of DHS and HFS' failure to locate case file documentation supporting eligibility determinations for beneficiaries, the auditors qualified their report on the TANF, CHIP and Medicaid Cluster programs.

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

DHS agreed with auditors recommendation

DHS officials agreed with the recommendation and stated the Department will continue to ensure staff understands the importance of proper and accurate filing processes. In addition, DHS officials stated they are increasing the use of electronic document management systems that capture some of the information that has been traditionally printed and maintained in paper case files. *(For previous DHS agency response, see Digest Footnote #4.)*

DHFS agreed with auditors recommendation

DHFS officials accepted the recommendation and stated they are working with DHS to incorporate all initial eligibility and redeterminations of eligibility into the new Integrated Eligibility System which will significantly improve record retention.

IMPROPER TANF BENEFICIARY PAYMENT

The Department of Human Services (DHS) made an improper payment to a beneficiary of the Temporary Assistance for Needy Families (TANF) Cluster program.

Improper payment made to TANF beneficiary

During our testwork of TANF Cluster program beneficiary payments, we selected 50 eligibility files to review for compliance with eligibility requirements and to determine that the appropriate benefits were paid. We noted two beneficiaries received payments for the addition of a family member to the family unit that were improperly calculated using the incorrect number of days. As a result of the calculation error, the beneficiaries' monthly payments were understated in total by \$62. The underpayments identified in our sample had not been calculated or paid to the beneficiary as of the time of our testing (December 2014).

Failure to properly calculate benefit payments may result in unallowable costs being charged to the TANF Cluster. (Finding 5, pages 51-52)

Auditor qualification due to improper payments

As a result of DHS making improper payments, the auditors qualified their opinion on the TANF Cluster.

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

DHS agreed with the auditors recommendation

DHS officials agreed with the recommendation stating DHS policy states that underpayments can only be paid if the client has an open case of the same cash benefit program. Since both TANF cases for the two clients affected are no longer active, office staff has notated in the electronic case narrative that the underpayments have been calculated and should be made if the client returns to the TANF programs.

INADEQUATE SUPPORTING DOCUMENTATION FOR PAYROLL COSTS

Documentation does not exist to substantiate payroll costs

The Illinois Department of Insurance (IDOI) did not retain adequate supporting documentation to substantiate payroll costs, totaling \$20,387,000 claimed for federal reimbursement under the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (ACA Exchanges) program.

Timesheets could not be provided by IDOI

During our testing of 25 payroll expenditures, totaling \$88,867, charged to the ACA Exchanges program we noted IDOI was unable to provide certifications or timesheets for the sampled expenditures. Upon further investigation, we noted IDOI does not obtain certifications from employees who work solely on the ACA Exchanges program to verify they spent 100% of their time on the federal program. We also noted IDOI did not maintain timesheets detailing activity related to federal programs for hourly employees whose time was charged to the ACA Exchange program.

In addition, we noted IDOI could not locate the standard forms (CMS-2 forms) used to document annual salary amounts for 5 of the 25 payroll expenditures sampled totaling \$35,503. The CMS-2 form is also used to document approval of the salary amount, as well as the position code and cost center to which each employee is assigned.

Inadequate documentation of payroll costs may result in the federal funds being expended for unallowable purposes. (Finding 34, pages 117-118)

Qualification due to inadequate documentation

As a result of inadequate supporting documentation, the auditors qualified their opinion on the ACA Exchanges program.

We recommended IDOI implement procedures to properly document payroll costs in accordance with the applicable program guidance.

IDOI disagreed with auditors

IDOI officials stated Get Covered Illinois employees that were hired as immediate staff of the Office of the Governor are considered double-exempt employees and timesheets were made available to the auditors. IDOI officials also stated Get Covered Illinois complied with all federal reporting standards as required by the Center for Consumer Information and Insurance Oversight.

Auditor Comment

In an auditors' comment, we noted timesheets provided during the audit did not meet the time and effort reporting requirement of OMB Circular A-87 and that although IDOI stated they had information to support IDOI's compliance with OMB Circular A-87 no such information was ever provided to the auditors despite follow-up requests by the auditors.

UNALLOWABLE COSTS CHARGED TO THE ACA EXCHANGES PROGRAM

The Illinois Department of Insurance (IDOI) could not provide supporting documentation for certain costs charged to the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (ACA Exchanges) program.

Supporting documentation not provided

During our testing of 40 contractual expenditures (totaling \$19,312,719) charged to the ACA Exchanges program, we noted IDOI was unable to provide invoices or other supporting documentation to substantiate 2 contractual expenditures (totaling \$39,513). In addition, we noted IDOI could not provide supporting documentation for three reimbursements made to the Department of Healthcare and Family Services (DHFS) for the State’s integrated eligibility system project (totaling \$6,787,452).

Total contractual expenditures charged to the ACA Exchanges program were \$20,529,000. Total reimbursements made to DHFS for the State’s integrated eligibility system project were \$6,787,452.

Inadequate documentation of program costs may result in the federal funds being expended for unallowable purposes. (Finding 35, pages 119-120)

Qualification due to inadequate documentation

As a result of lack of supporting documentation, the auditors qualified their opinion on the ACA Exchanges program.

We recommended IDOI implement procedures to properly document program costs in accordance with the applicable program guidance.

IDOI officials agreed with recommendation

IDOI officials stated that during the first year of the Illinois Health Insurance Marketplace, the financial division of the program was composed of only one employee and additional staff were not available for review of expenditures. IDOI officials also stated the Department has since proposed a process of review with staff in the Illinois Health Insurance Marketplace to ensure thorough review of potential expenses to the program.

INADEQUATE SUBRECIPIENT MONITORING PROCEDURES FOR ACA EXCHANGES PROGRAM

The Illinois Department of Insurance (IDOI) has not established adequate subrecipient monitoring procedures for the State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges (ACA Exchanges) program.

Inadequate subrecipient monitoring procedures

IDOI passes through ACA Exchanges funding to organizations who assist in enrolling individuals for health insurance (subrecipients). As the Illinois Department of Public Health (IDPH) has existing relationships with the ACA Exchanges subrecipients, IDOI has executed an interagency agreement with IDPH to monitor its subrecipients. However, during our testwork, we noted findings identified by IDPH during reviews of expenditure reports and on-site reviews were not formally communicated to any of the 25 subrecipients tested by either IDPH or IDOI. Additionally,

IDOI does not have appropriate procedures in place to monitor IDPH's activities related to the intragovernmental agreement. Failure to communicate the results of monitoring procedures 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 36, pages 121-122)

Qualification pertaining to subrecipient monitoring

As a result of inadequate monitoring of subrecipients, the auditors qualified their opinion on the ACA Exchanges program.

We recommended IDOI establish procedures to formally monitor IDPH and communicate the results of monitoring reviews performed for ACA Exchanges program subrecipients.

IDOI agreed with recommendation

IDOI officials stated the Department relies on staff at the Illinois Department of Public Health in order to review and monitor these costs and a team dedicated to Get Covered Illinois was established at the Department of Public Health in order to complete all necessary monitoring.

FAILURE TO OBTAIN CERTIFIED PAYROLLS PRIOR TO MAKING HIGHWAY PLANNING AND TIGER CONTRACTOR PAYMENTS

Certified payrolls not obtained prior to payments to contractors

The Illinois Department of Transportation (IDOT) did not obtain certified payrolls prior to making payments to contractors for the Highway Planning and Construction Cluster (Highway Planning) and Surface Transportation Discretionary Grants for Capital Investment (TIGER) programs.

Certified payrolls not dated

During our testwork of 48 Highway Planning contractor payments for regular construction projects totaling approximately \$25,600,000, 17 Highway Planning contractor payments for advanced construction projects totaling approximately \$6,344,000, and 5 TIGER contractor payments for regular construction projects totaling approximately \$2,554,000, we noted the following:

- Certified payrolls for 2 Highway Planning contractor payments on regular construction projects and 2 Highway Planning contractor payments on advanced construction projects were not received prior to payment. Payrolls were received subsequent to the payments made to the contractors from 7 to 60 days.
- Certified payrolls for 26 Highway Planning contractor payments on regular construction projects, 6 Highway Planning contractor payments on advanced construction projects, and 4 TIGER contractor payments on regular construction projects were not date stamped. As a result, we were unable to

determine whether they were received prior to making payments to the contractors.

- Certified payrolls for 12 Highway Planning contractor payments on regular construction projects and 6 Highway Planning contractor payments on advanced construction projects were not signed by either the Resident Engineer, documentation staff, or Equal Employment Opportunity personnel. As a result, we were unable to determine whether the certified payroll was approved prior to making payments to the contractor.

Failure to obtain certified payrolls prior to making payments to the contractors could result in contractors not paying the prevailing wage rate to employees. (Finding 56, pages 163-164) **This finding was first reported in the Statewide Single Audit in 2011.**

Auditor qualification pertaining to Davis-Bacon Act

As a result of IDOT not obtaining certified payrolls prior to payment, the auditors qualified their report for the Highway Planning and TIGER programs.

We recommended IDOT establish procedures to ensure weekly payroll certifications are received prior to making payments to the contractors.

IDOT agreed with the auditors recommendation

IDOT officials agreed with the recommendation and stated direction will be provided to the field staff at their annual Project Implementation meeting and at the annual spring meetings in each district. (*For previous agency response, see Digest Footnote #5.*)

FAILURE TO RETAIN DOCUMENTATION IN ACCORDANCE WITH FEDERAL REGULATIONS

IDOT did not retain documentation for construction projects in the Highway Planning and Construction Cluster (Highway Planning) program in accordance with federal regulations.

Inadequate retention of documentation

Contractors must receive advance approval from IDOT to bid on construction projects. As a condition of obtaining IDOT's advance approval contractors are required to submit an affidavit of availability, which identifies the total value of work previously awarded but not yet complete by the contractor, the contractor's commitment of equipment and personnel on payroll for the planned project, any proposed work on which the contractor is the low bidder which has not yet been awarded, all subcontractors used by the contractor on its projects, and the value of work sublet by the contractor. This affidavit is used by IDOT to determine whether the contractor has available capacity to complete the project.

IDOT's retention policy not sufficient

During our testwork of 48 contractor payments for regular construction projects totaling approximately \$25,600,000 and

17 contractor payments for advanced construction projects totaling \$6,344,000 we noted the affidavit of availability could not be located for two contractors with sampled payments of \$308,500. We noted these projects were originally bid prior to fiscal year 2008 and the affidavits were purged in accordance with IDOT's record retention policy. As federal regulations require records to be retained for a period of three years after final payment and all other pending matters are closed, these affidavits of availability should have been retained by IDOT.

Failure to retain documentation in accordance with Federal regulations may result in unallowable costs being charged to the federal program and prevents Federal agencies from properly monitoring the State's compliance with program requirements. (Finding 57, pages 165-166)

Auditor qualification due to failure to retain documentation

As a result of IDOT not retaining documentation in accordance with federal regulations, the auditors qualified their report for the Highway Planning program.

We recommended IDOT review its current retention policies and procedures and implement the changes necessary to ensure documentation is retained in accordance with Federal regulations.

IDOT agreed with the auditors recommendation

IDOT officials agreed with the recommendation and stated the Federal Highway Administration is setting new rules that require federal reimbursement within 5 to 7 years from the date of project authorization and the Department's record retention schedule should be adequate to cover this time period.

ISSUES INVOLVING AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) AND FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT (FFATA)

FAILURE TO COMMUNICATE ARRA INFORMATION AND REQUIREMENTS TO SUBRECIPIENTS

The Department of Transportation (IDOT) did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

ARRA funds not separately identified

We noted IDOT did not communicate the requirement to separately report ARRA program expenditures on the Schedule of Expenditures of Federal Awards and the data collection form to two subrecipients. We also noted these agreements did not include Buy American Act certifications required for ARRA awards.

Buy American Act certifications not included

Failure to communicate required ARRA information and obtain Buy American certifications could result in subrecipients not properly administering the federal programs in accordance with federal regulations and unallowable costs. (Finding 59, pages 169-170) **This finding was first reported in the Statewide Single Audit in 2010.**

We recommended IDOT implement procedures to ensure ARRA information and requirements are properly communicated in writing to its subrecipients and obtain required Buy American certifications.

IDOT agreed with the auditors recommendation

IDOT officials agreed with our recommendation and stated the Department will provide written notification to properly communicate the required ARRA information and Buy American requirements to all subrecipients. (*For previous IDOT response, see Digest Footnote #6.*)

INADEQUATE PROCESS TO REPORT SUBAWARD INFORMATION REQUIRED BY FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT

We noted weaknesses in reporting subaward information as required by FFATA for the following agencies:

Subaward information not reported in accordance with FFATA

Human Services (DHS)	Special Supplemental Nutrition Program for Women, Infants, and Children Temporary Assistance for Needy Families Cluster Child Care Development Fund Cluster Social Services Block Grant Block Grants for Prevention and Treatment of Substance Abuse	2014-017 pages 80-82
Healthcare and Family Services (HFS)	Child Support Enforcement Medicaid Cluster	2014-024 pages 96-97
Children and Family Services (DCFS)	Foster Care - Title IV-E Adoption Assistance	2014-030 pages 108-109
Insurance (IDOI)	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	2014-040 pages 129-130
IL State Board of Education (ISBE)	Title I Grants to Local Educational Agencies Special Education Cluster Twenty-First Century Community Learning Centers Improving Teacher Quality State Grants	2014-045 pages 140-141
IL Emergency Management Agency (IEMA)	Homeland Security Grant Program	2014-068 pages 187-188

We noted DHS, HFS, DCFS and IDOI did not report all information required by FFATA and ISBE and IEMA did not have an adequate process to ensure all subaward information was properly reported.

Agencies accepted the auditors recommendation

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to \$25,000 under federal grants awarded on or after October 10, 2010.

We recommended the agencies establish procedures to identify all subawards subject to FFATA reporting requirements and report required subaward information in accordance with FFATA.

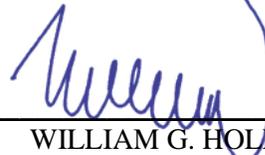
DHS, HFS, DCFS, IDOI, ISBE and IEMA officials accepted our findings and recommendations.

OTHER FINDINGS

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2015.

AUDITORS' OPINION

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2014 is presented fairly in all material respects.



WILLIAM G. HOLLAND
Auditor General

WHG:JSC

SPECIAL ASSISTANT AUDITORS

KPMG LLP was our special assistant auditor for this audit.

DIGEST FOOTNOTES

Previous response by the Office of the Governor and the Office of the State Comptroller

#1 Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards

2013: (Office of the Governor) The Governor's Office agrees with this recommendation. The Governor's Office and the Governor's Office of Management and Budget (GOMB) are and will continue to work cooperatively with the Office of the Comptroller are address these challenges with effective solutions.

Governor Quinn signed into law SB 3794 (now codified as Public Act #97-1055), an initiative of the Governor's Office, in order to create a statutory framework to begin to address the basic issues with the State's financial reporting capabilities. The legislation has several components. First it creates a Financial Reporting Standards Board ("Board") composed of appointees of the Governor and the Comptroller. The Board first convened in September of 2013 and has met roughly monthly since then. The Board will provide leadership and a forum for project management

and collaboration going forward. Additionally, the bill modified the State's personnel code to allow accelerated and targeted hiring of highly skilled employees to perform financial reporting, accounting, and project management activities for the annual financial reporting cycle. These include personnel to help improve the speed of the current process as well as other professionals who will help to design and implement an overhaul of the technology and establish a unified statewide system.

The Governor's Office has notified agencies of this new provision and encouraged its responsible utilization. In addition, the Governor's Office and GOMB continue to work with agencies to hire employees skilled in financial statement and single audit preparation for positions that remain subject to the Personnel Code.

GOMB and the Governor's Office have been primarily responsible for developing a plan for a statewide financial accounting system. This statewide financial accounting system would also include a grants management module. The State Chief Information Officer, a team of Governor's Office and GOMB representatives has reviewed the information available from work by prior consultants. A Request for Proposals (RFP) for an enterprise resources planning (ERP) project management office (PMO) consultant was issued in October, 2013; a contract award pursuant to this solicitation was made and a notice of award published in 2014. This consultant will develop the necessary statewide accounting requirements and develop an RFP for software and implementation services to address the state's need. In addition, due to a September 2012 debt issuance of 10-year notes aimed at technology modernization, the State has allotted some capital money for this project. These resources will be a significant help in getting the project underway. With an ERP system in place, the State will be able to complete in a timely and accurate way the Schedule of Expenditure of Federal Awards (SEFA).

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

- 2013: (Office of the State Comptroller) The Office accepts the recommendation. The audit of the 2013 SEFA was completed approximately two months earlier than the audit of the 2012 SEFA. We will continue to assist the Governor's office in their efforts to increase the quality of departmental financial reporting by providing technical assistance to State agencies and by working with them to develop a statewide financial accounting system.

Previous responses by the Department of Human Services

#2 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

- 2013: The Department agrees with the recommendation. IDHS will continue to work with the Department of Healthcare and Family Services (HFS) to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes.

#3 Failure to Properly Maintain and Control Case File Records

- 2013: The Department agrees with the recommendation. Given our current fiscal, staffing, and space constraints, the Department continues to place a high priority on proper case file maintenance. The Department is now utilizing a document management system that is capturing a portion of the information that was previously printed and stored in the paper case file, and now stored electronically. This is assisting in the reduction of the overwhelming size and amount of paper files in the offices.

#4 Missing Documentation in Beneficiary Eligibility Files

2013: The Department agrees with the recommendation. We will continue to ensure staff understands the importance of proper and accurate filing processes. The Department is increasing the use of electronic document management systems that capture some of the information that has been traditionally printed and maintained in paper case files.

Previous responses by the Department of Transportation

#5 Failure to Obtain Certified Payrolls Prior to making Highway Planning and TIGER Contractor Payments

2013: The Department agrees with the recommendation. Direction was provided at the Annual Winter Project Implementation meeting held in January 2014. An FHWA process review is being conducted to review the current process for ensuring prevailing wage requirements are being met. Any deficiencies identified in the current process will be reviewed and implemented by April 2015.

#6 Missing Documentation in Beneficiary Eligibility Files

2013: The Department agrees with the recommendation. The Department revised the subrecipient agreements to properly communicate the required ARRA information and obtain Buy American certifications for all new subrecipients. In addition, the Department will provide notification to current subrecipients of the required ARRA information.