LEGISLATIVE AUDIT COMMISSION

Review of
Statewide Single Audit
Year Ended June 30, 2009

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REVIEW: 4343
STATEWIDE SINGLE AUDIT
YEAR ENDED JUNE 30, 2009

TOTAL FINDINGS/RECOMMENDATIONS - 93

TOTAL REPEATED RECOMMENDATIONS - 65

TOTAL PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 97

Beginning with FY2000, the Office of the Auditor General converted to a Statewide Single Audit approach to audit federal grant programs. In prior years, audits of federal grant programs were conducted on a department by department basis. This review summarizes the FY09 Statewide Single Audit of federal funds. The compliance audit testing performed in this audit was conducted in accordance with *Government Auditing Standards,* the federal Single Audit Act*,* and Office of Management and Budget (OMB) Circular A-133. The auditors stated that the financial statements were fairly presented.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 43 State agencies expended federal financial assistance in FY09. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities.

The Schedule of Expenditures of Federal Awards (SEFA) reflected total expenditures of almost $23.68 billion for the year ended June 30, 2009. This represents a $6.355 billion increase over FY08, or about 36.7%. Overall, the State participated in 368 different federal programs; however, 11 of these programs or program clusters accounted for approximately 86.3% ($20.451 billion) of the total federal award expenditures as exhibited in the following table.

Federal Program Award	Total Expenditure	% of Total
Medicaid	$ 8,008,200,000	33.8%
Unemployment Insurance	5,163,400,000	21.8%
Supplemental Nutrition	2,212,000,000	9.3%
Highway Planning, Construction	1,248,900,000	5.3%
State Fiscal Stabilization	1,038,900,000	4.4%
Title 1 Education Grants	770,200,000	3.3%
TANF	545,700,000	2.3%
Special Education	519,500,000	2.2%
Child Nutrition	456,200,000	1.9%
Fed. Family Education Loans	245,200,000	1.0%
Children's Insurance Program	242,700,000	1.0%
All Others	3,229,200,000	13.7%
Total Federal Awards	$ 23,680,100,000	

The funding for the 368 programs was provided by 22 different federal agencies. The table below shows the five federal agencies that provided Illinois with the vast majority of federal funding in FY09.

Federal Funding Agency	Total Grant	% of Total
Health & Human Services	$10,246,000,000	43.3%
Labor	5,353,500,000	22.6%
Education	3,099,300,000	13.1%
Education	3,046,900,000	12.9%
Transportation	1,378,600,000	5.8%
All Others	555,800,000	2.3%

A total of 54 federal programs (or 35 programs/clusters) were identified as major programs in FY09. The 54 major programs had combined expenditures of $22.843 billion, and 314 non-major programs had combined expenditures of $555.8 million. Ten State agencies accounted for approximately 98.3% of all federal dollars spent in FY09 as depicted in the table below.

State Agency	Federal Expenditures	% of Total
DHFS	$ 8,212,900,000	34.7%
Employment Security	5,196,300000	21.9%
Human Services	3,756,100,000	15.9%
Board of Education	3,246,600,000	13.7%
Transportation	1,379,300,000	5.8%
DCEO	455,900,000	1.9%
DCFS	417,300,000	1.8%
ISAC	251,100,000	1.1%
Public Health	214,200,000	0.9%
IEMA	156,000,000	0.6%
All Others	394,400,000	1.7%

The table below summarizes the number of report findings by State agency and identifies the number of repeat findings.

State Agency	Number of Findings	Repeat Findings
State Comptroller	1	1
Human Services	12	9
Revenue	1	1
Healthcare and Family Services	20	13
DCFS	5	4
Aging	3	3

State Agency	Number of Findings	Repeat Findings
Public Health	5	5
State Board of Education	6	3
Community College Board	3	2
ISAC	3	2
Employment Security	10	6
Commerce & Economic Opportunity	3	2
Transportation	9	6
Emergency Management Agency	7	3
State Police	1	1
State Board of Elections	2	2
Central Management Services	2	2
TOTAL	93	65

RECOMMENDATION 1
Office of the Governor
Office of the Comptroller

08-01. The auditors 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. (Repeated-2002)

Findings: 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 solved these problems or made 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 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.

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 and 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 the preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

Certain SCO forms are used by the IOC to collect financial information utilized in the SEFA compilation and reporting process. Errors and delays identified in the SEFA reporting process over the past six years have included the following:

- Expenditures for the Homeland Security Cluster were not appropriately clustered by the Illinois Emergency Management Agency and were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Highway Planning and Construction Cluster were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Airport Improvement Program were improperly identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Transportation in 2009.
- Expenditures for the Foster Care and Adoption Assistance programs were not identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Children and Family Services in 2009.
- 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.
- Several correcting entries and/or restatements were required in order to accurately state the financial information of at least 12 agencies.
- Preparation of the SEFA has not been completed by the State prior to March 31st in the past seven years.

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 State's current inability to obtain the capital funding required to acquire and implement such a system. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

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.

Governor's Response: We agree. The Office of the Governor will continue efforts to increase communication and work closely with the Office of the State Comptroller. The Governor's Office is establishing and implementing a corrective action plan to improve the quality and timeliness of the accounting information provided to the Comptroller for year-end preparation of the CAFR and the SEFA. The plan includes conducting a risk assessment, implementing additional internal controls, providing training to staff, and creating new accounting positions with necessary education and experience requirements to properly perform duties.

As noted in the discussion, the State has a highly decentralized financial reporting process, reliant on over 100 separate agency financial accounting and reporting systems. The Office of the Governor will work with the Illinois General Assembly and the Office of the State Comptroller to establish the business case and plan for the capital cost of implementing a statewide accounting and grants management system.

Comptroller'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 continue to support legislation, as was introduced in the past two legislative sessions that provides it with enforcement tools to compel State agencies to comply with necessary reporting deadlines.

RECOMMENDATIONS 2-13
Department of Human Services

09-02. The auditors recommend DHS 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. (Repeated-2003)

Findings: DHS does not have an adequate process for monitoring interagency expenditures claimed under TANF and Child Care. As the state agency responsible for administering these programs, DHS has executed interagency agreements with each of the state agencies expending federal and/or state program funds. DHS 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, 2009, DHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF and Child Care programs as follows:

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Department of Children and Family Services (DCFS)	$265,603,885	$545,739,000
Federal TANF	Illinois Student Assistance Commission (ISAC)	$48,497,834	$545,739,000

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Illinois Department of Revenue (IDOR)	$14,178,462	$545,739,000
Federal TANF	Department of Healthcare and Family Services (DHFS)	$89,329	$545,739,000
TANF MOE	Department of Healthcare and Family Services (DHFS)	$38,387,569	$532,682,350
TANF MOE	Illinois State Board of Education (ISBE)	$77,203,907	$532,682,350
TANF MOE	Illinois Community College Board (ICCB)	$3,716,078	$532,682,350
Child Care MOE	Department of Children and Family Services (DCFS)	$20,956,784	$129,551,744

During testwork over the documentation of the monitoring procedures discussed above, auditors noted the following deficiencies:

- DHS 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. The specific federal regulations and requirements of the State Plan are not identified in the agreements.

- The questionnaires developed by DHS, completed by some of the agencies and returned to DHS did not include documentation of all areas applicable to the expenditures reported.

In each of the past seven years, auditors have identified several instances of noncompliance and unallowable costs claimed from expenditures reported by other State agencies, which indicates adequate internal control does not exist over the claiming of these expenditures and adequate monitoring of the other State agencies has not been performed. For FY09, auditors identified the following instances of non-compliance in 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;

- Expenditures provided by DCFS for some programs included expenditures to subrecipients for which DCFS has not established adequate monitoring procedures.

In discussing these conditions with DHS officials, they stated this is due to lack of adequate staff with necessary skill set for monitoring interagency program expenditures.

Updated Response: Corrective Action Implemented as of 3/31/11:

- All interagency agreements have been reviewed and submitted to the Illinois Department of Human Services (DHS), Legal Department for review and approval.

- A meeting of the TANF Workgroup was held during the week of 9/7/10 to review all interagency agreements; specifically the Illinois Department of Healthcare and Family Services (DHFS) and the Illinois Department of Children and Family Services (DCFS) agreements
- Legal Office has been contacted to determine if they have any revisions to the agreements.
- The Illinois Department of Human Services (DHS) has reviewed internal control surveys from other agencies.
- Meetings were held with all the agencies during the month of June 2010 and the surveys, agreements were discussed along with any program changes.

Corrective Action to be completed:

- The Office of Contract Administration will perform an onsite review of program policy and procedures at each of the six affected agencies within 12 months from the date of assignment.
- The Office of Fiscal Services will provide the Office of Contract Administration with the applicable TANF program control guidelines
- The Office of Contract Administration will schedule the on-site reviews accordingly.

09-03. The auditors recommend 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. (Repeated-2003)

Findings: DHS is not performing "eligibility redeterminations" for individuals receiving benefits under TANF, Children's Health Insurance Program (CHIP), and Medicaid programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF, CHIP, and Medicaid Cluster programs require the State to perform eligibility redeterminations on an annual basis. During testwork over eligibility, auditors noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF, CHIP, and Medicaid programs. In evaluating the eligibility redetermination delinquency statistics, auditors noted the statistics for the CHIP and Medicaid programs appear to have improved as a result of implementing an inadequate passive redetermination process. 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 CHIP and Medicaid programs.

Program	Overdue Redeterminations in June 2009	Number of Cases in June 2009	Percentage of Overdue Cases June 2009
TANF	939	28,479	3.30%
CHIP	21,962	693,313	3.17%
Medicaid	28,787	437,458	6.58%

Payments made on behalf of beneficiaries of the TANF, CHIP, and Medicaid Cluster programs totaled $16,412,408, $260,867,000, and $7,553,311,000, respectively, during the year ended June 30, 2009.

In discussing these conditions with DHS officials, they stated this is due to lack of staffing.

Updated Response: Corrective Action Implemented as of 3/31/11:

- HB5420 commonly referred to as Medicaid Reform was signed into law by Governor Quinn on January 25, 2011.

- The legislation requires changes to the All Kids Program including the elimination of the passive redetermination and requiring annual redetermination of eligibility.

Corrective Action to be Completed:

- DHS is currently working closely with HFS Policy staff on the implementation of these reforms, including formulating a plan to address the increased workload that the elimination of the administrative renewal process will bring to the All Kids Unit and the DHS Family Community Resource Centers.

- DHS is also seeking ways to perform renewals more quickly and efficiently, such as increased utilization of available cross matches with other agencies. In addition, DHS is implementing policies to reduce the need for face-to-face interviews at the FCRC through automated processes including the Phone Stamp Interview (PSI), which allows customers to complete a redetermination by phone 24/7.

- DHS continues to explore ways to increase efficiency in the Family Community Resource Centers (FCRC) to handle the tremendous increase in demand. A document management system will be rolled out in the Fall of 2011 to reduce paper and increase efficiency. In addition, DHS was recently selected for a Ford Foundation Grant focused on Work Support Strategies. This funding will allow the execution of business process re-engineering in the FCRCs to handle the increased caseloads more timely and accurately.

09-04. The auditors recommend DHS 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. (Repeated-2007)

Findings: DHS does not have appropriate controls over case file records maintained at its local offices for beneficiaries of SNAP, TANF, Children's Health Insurance Program (CHIP), and Medicaid programs.

During testwork, auditors 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. In a review of case files at five separate local offices, the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. Also, 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.

Additionally, during testwork over 190 case files relative to the TANF, CHIP, and Medicaid programs, auditors 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 SNAP Cluster, TANF, CHIP, and Medicaid programs were approximately $2,115,070,780, $16,412,408, $260,867,000, and $7,553,311,000, respectively, during the year ended June 30, 2009.

In discussing these conditions with DHS officials, they stated this is a repeated audit finding based on the condition of file rooms in the Family Community Resource Centers. Most offices have a lack of file cabinets and/or file cabinet space in which to properly store all case files.

Auditors' Comment: We noted several delays in receiving case files during our testwork. In addition, several case files were missing documentation as identified in finding 09-06. This finding has been repeated since the 2007 audit in which case files could not be located for our testwork. Despite locating the files sampled in our testwork, DHS has not implemented procedures to address the condition found.

Updated Response: Corrective Action Implemented as of 3/31/11:
Short Term:

- The Regional Managers have stressed the importance of proper documentation in regional meetings.

- The DHS, Division of Human Capital Development (HCD) Regional Managers will continue to stress the importance of case file documentation and organization to appropriate staff.

Corrective Action to be completed:
Long Term:

- The DHS, Division of Human Capital Development (HCD) is implementing a document management system that will capture much of the information that is currently printed and placed in a paper file, and route it to an electronic file. This will reduce the overwhelming size and amount of files in the offices, and better track the location of case files.

09-05. The auditors recommend DHS review its current process for performing eligibility determinations and consider changes necessary to ensure procedures to verify whether beneficiaries have been convicted of a Class 1 or Class X felony are implemented. (Repeated-2006)

Findings: DHS does not have adequate procedures in place to ensure individuals convicted of Class 1 or Class X drug felonies do not receive TANF benefits.

During testwork, auditors noted DHS' 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. DHS 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 of beneficiaries of the TANF program totaled $16,412,408 during the year ended June 30, 2009.

In discussing these conditions with DHS officials, they stated this is a repeat finding due to inconsistencies in written policy and procedure.

Response: The Department accepts the recommendation. The Department has reviewed our process of verifying the presence of a Class 1 or Class X felony, and we have modified our policy on June 29, 2009 to be consistent with our eligibility determination process.

Auditors' Comment: The Department's modification of the policy was to eliminate the crossmatch requirement from the policy document 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.

Updated Response: Corrective Action Implemented as of 3/31/11:
Short Term:

- The DHS, Division of Human Capital Development (HCD) has modified the Department's paper application and the electronic application has been modified to ask the applicant if they've been convicted of a felony involving a controlled substance.

- The DHS, Division of Human Capital Development (HCD) has implemented a policy requiring TANF applicants to certify in writing whether or not they have been convicted of a felony involving a controlled substance.

- Written policy and procedure referencing a cross match with the Department of Corrections and the Illinois State Police has been deleted from the policy manual.

- The new policy Manual regarding Drug-Related Felony Convictions, Fugitive Felons, Probation/Parole Violations was released effective June 24, 2009.

- The Illinois State Police has been contacted in order to obtain a file of convicted Class X and Class 1 drug felons, in order to perform a cross-match that would lend potential assistance in the identification of TANF ineligible felons.

Corrective Action to be completed:
Long Term:

- The Department is currently discussing and searching for appropriate methods to develop a cross-match or another verification mechanism to ensure beneficiaries that have been convicted of a Class 1 or Class X felony do not receive TANF benefits.

09-06. The auditors recommend DHS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained. (Repeated-2001)

Findings: DHS could not locate case file documentation supporting eligibility determinations for beneficiaries of the CHIP and the Medicaid programs.

During testwork of 65 CHIP and 125 Medicaid beneficiary payments, auditors selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided and noted the following exceptions:

- In one CHIP case file and eight Medicaid case files, DHS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file.

- In one CHIP case file, DHS 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.

- In two CHIP case files, DHS could not locate adequate documentation supporting income verification procedures were performed. In lieu of collecting copies of pay stubs to verify income, the caseworkers verbally confirmed income information, relied on client handwritten notes, or used income verified on previous applications.

Beneficiary payments selected in the samples totaled $144,047 and $347,725 for the CHIP and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the CHIP and Medicaid Cluster programs totaled $260,867,000 and $7,553,311,000, respectively, during the year ended June 30, 2009.

In discussing these conditions with DHS officials, they stated this is caused by human filing errors.

Response: The Department accepts the recommendation. The Department will continue to ensure that staff understand the importance of proper and accurate filing processes. Proper documentation of eligibility factors will continue to be an integral part of training curricula.

Updated Response: Corrective Action Implemented as of 3/31/11:

- Central DHS staff stressed the importance of proper documentation at Regional meeting.

- Proper documentation of eligibility factors will continue to be an integral part of training curricula.

- The DHS, Division of Human Capital Development (HCD) is implementing a document management system that will capture much of the information that is currently printed and placed in a paper file, and route it to an electronic file. This will improve the maintenance of eligibility documentation; reduce the overwhelming size and amount of files in the offices, and better track the location of case files.

09-07. The auditors recommend DHS notify all subrecipients in writing of the specific federal program name, award number, CFDA number, and amount of non-cash assistance on a quarterly basis. The auditors also recommend DHS implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

Findings: DHS does not have adequate procedures to communicate non-cash expenditures to its subrecipients.

DHS provides vouchers for child care services to eligible State residents under the TANF, Child Care, and Social Services Block Grant (Title XX) programs. DHS also provides food instruments to eligible State residents under WIC. DHS is assisted by subrecipient organizations throughout the State in performing the beneficiary eligibility determinations required for each of these programs. As a result, DHS identifies and notifies program subrecipients of the amount of non-cash

assistance (beneficiary payments) the subrecipient should report on its schedule of expenditures of federal awards (SEFA).

During testwork over the award notification process for subrecipients of the WIC, TANF, Child Care, and Title XX programs, auditors noted DHS only reports the non-cash assistance attributable to each subrecipient on an annual basis. Because DHS does not identify the specific federal program name, award number, catalog of federal domestic assistance (CFDA) number, or amount of non-cash assistance until several months after the end of the State's fiscal year, subrecipients cannot prepare their SEFAs or have OMB Circular A-133 audits performed until the information is received from DHS.

Further, DHS' grant agreements for the WIC program did not identify the requirement for subrecipients to separately report ARRA program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form.

DHS reported non-cash assistance to subrecipients in the following amounts:

Program Name	Non-Cash Assistance	Total Subrecipient Expenditures	Total Program Expenditures
WIC	$95,979,000	$218,429,000	$218,572,000
WIC ARRA	421,000	421,000	421,000
TANF	145,175,000	241,513,000	545,739,000
Child Care	107,083,000	188,905,000	204,962,000
Title XX	15,795,000	33,600,000	108,690,000

In discussing these conditions with DHS officials, they stated reporting of non-cash assistance to providers has been conducted on an annual basis. The Department was unaware of the reporting requirements identified in this finding.

Updated Response: Corrective Action Implemented as of 3/31/11:

- The DHS Office of Procurement and Contract Administration in coordination with WIC Program staff began reporting WIC Non-Cash benefits to DHS Providers on a quarterly basis on November 15, 2011.

Corrective Action to be Completed:

- The DHS Office of Procurement and Contract Administration is coordinating with the WIC and Child Care Program to begin receiving quarterly Non-Cash benefit reports.

- DHS is in the process of establishing procedures to reiterate Federal requirements regarding communication of non-cash expenditures to its subrecipients.

The Office of Procurement and Contract Administration is in the process of establishing reporting procedures with the Office of Fiscal Services and the Child Care Program Staff for non-cash benefits.

09-08. The auditors recommend DHS 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. (Repeated-2005)

Findings: DHS made unallowable expenditures on behalf of eligible beneficiaries of the 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. During testwork of 50 Vocational Rehabilitation beneficiary payments, auditors noted two cases in which DHS was unable to provide documentation supporting that the beneficiary's Individualized Plan for Employment (IPE) had been approved.

Beneficiary payments selected in the sample totaled $52,671. Payments made to beneficiaries of the Vocational Rehabilitation program totaled $14,991,055 during the year ended June 30, 2009.

In discussing these conditions with DHS officials, they stated this situation resulted from staff failing to document approval for the expenditures in accordance with federal guidelines.

Updated Response: Corrective Action Implemented as of 3/31/11:

- The Division of Rehabilitation Services (DRS) issued a first page reminder regarding the importance of printing and signing all appropriate forms.
- At zone meetings, the Division of Rehabilitation Services (DRS) discussed audit issues and included a statement regarding the importance of printing and signing documentation.
- New Employee Orientations is being revamped for more tailored curriculum that will reinforce the need of proper documentation with all new staff.
- The Division of Rehabilitation Services Quality Assurance Unit continues to review cases, including review of documentation as part of its traditional review criteria.

09-09. The auditors recommend DHS 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. (Repeated-2004)

Findings: DHS did not determine the eligibility of beneficiaries under the Vocational Rehabilitation program in accordance with federal regulations.

During testwork of 50 Vocational Rehabilitation beneficiary payments selected for compliance with eligibility requirements and for the allowability of the related benefits, auditors noted the following exceptions in testwork:

- In three eligibility files tested, DHS did not determine eligibility within the required 60-day timeframe.

- In four case files, DHS 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.

- In one case file, DHS could not provide the Customer Financial Analysis signed by the case worker and beneficiary; however, an unsigned electronic Customer Financial Analysis was provided from the case management systems.

Payments made to beneficiaries of the Vocational Rehabilitation program totaled $14,991,055 during the year ended June 30, 2009.

In discussing these conditions with DHS officials, they stated the failure to determine eligibility within the 60-day time period is due to delays in obtaining needed medical records and not documenting customer approval for extending the eligibility determination period.

Updated Response: Corrective Action Implemented as of 3/31/11:

- Audit issues were discussed at the current zone meetings. Future zone meetings are being restructured and audit requirements will be reinforced at zone meetings when they occur.
- The Division of Rehabilitation Services (DRS) issued a first page reminder regarding the importance of printing and signing all appropriate forms.
- The DHS MIS and the Division of Rehabilitation Development (DRS) have added electronic notice of upcoming 60-day time frame to the Virtual Case Management (VCM) system to ensure all eligibility determinations are made and documented in accordance with program regulations.
- The Division of Rehabilitation Services Quality Assurance Unit (QA) continues to review cases, including review of documentation as part of its traditional review criteria.
- New Employee Orientation is being revamped for more tailored curriculum that will reinforce the need of proper documentation with all new staff.

09-10. The auditors recommend DHS review its procedures for monitoring its service organizations and implement additional procedures to ensure appropriate follow up is performed relative to control deficiencies identified at its service organization. Such procedures should include documentation of DHS' assessment of the impact of any control deficiencies and/or noncompliance identified in the service organization's report on the WIC program.

Findings: DHS has not established adequate procedures to ensure controls are operating effectively at its third party service organization for the WIC program. The service organization is responsible for validating each food instrument presented for payment by comparing the instrument to information provided by DHS and for paying each vendor submitting food instruments.

During a review of the report on controls placed in operation and tests of operating effectiveness (SAS 70 report) for the service organization, the auditors' report was modified for one control objective that was not achieved. Specifically, the service organization provided information system developers privileged access to the WIC program food information processing application production database and server without formal security controls.

In addition, DHS personnel responsible for reviewing the service organization report did not identify the report modification as an exception or control deficiency on their internal review checklist and did not perform procedures to assess the impact of the control deficiencies with respect to the WIC program until this item was identified during the audit.

In discussing these conditions with DHS officials they stated, the SAS70 report noted a finding regarding the functioning of the WIC Banking system. DHS failed to take appropriate action regarding the finding and staff were unaware that further action was needed.

Updated Response: Corrective Action Implemented as of 3/31/11:

- Upon notification of the (Fiscal Year 2009) SAS 70 documented control deficiency, staff from the Department notified the contractor (CSC) of the documented procedural error and requested what remediation will occur.

- Evaluated the remediation plan, with the appropriate Department staff to satisfy appropriate follow up from a third party provider.
- The Fiscal Year 2010 SAS-70 audit report has been received and reviewed.

No significant findings were noted in the SAS-70 audit report; therefore no remediation plan is required.

09-11. The auditors recommend DHS revise the expenditure report and related instructions provided to its subrecipient to ensure an appropriate level of information is obtained by DHS to monitor the expenditures and matching requirements of the SNAP Cluster and to properly determine amounts to be reimbursed to the subrecipient.

Findings: DHS does not have adequate procedures in place to ensure expenditures submitted by its subrecipients are allowable under program regulations for the SNAP Cluster.

During testwork, auditors noted the expenditure report used by the subrecipient of the SNAP Cluster is highly summarized and does not provide sufficient information for DHS to properly monitor the subrecipient's expenditures and matching contributions or compute the amount to be reimbursed. Specifically, the report does not separately identify in-kind contributions from other expenditures used to meet the matching requirement.

In discussing these conditions with DHS officials, they stated this is due to subrecipient expenditures not being properly monitored.

Updated Response: Corrective Action Implemented as of 3/31/11:
- The Department has established procedures to review SNAP-Ed expenditures requirements.
- Beginning Oct. 1, 2010 the SNAP-Ed program changed significantly. The program was revised by USDA to become a 100% reimbursement program.
- States will no longer be required to document any matching costs. As a result, the program does not need to pursue additional documentation of match.
- USDA also provided documentation outlining the changes to the program.

09-12. The auditors recommend DHS obtain written documentation of the assignment of medical support rights from all Medicaid beneficiaries. (Repeated-2005)

Findings: DHS did not obtain written documentation from beneficiaries of the Medicaid 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 child and medical support payments to the State for the time periods the individuals are receiving Medicaid benefits.

During testwork over the Medicaid programs, auditors selected eligibility files for 125 Medicaid beneficiaries noted the case file for two Medicaid beneficiaries did not contain a signed acknowledgement of assigning child or medical support payments to the State.

In discussing these conditions with DHS officials, they stated this is a repeat finding due to human

filing error.

Response: The Department accepts the recommendation. DHS has reiterated to staff the importance of obtaining proper assignment of rights signature documentation. There are extenuating circumstances surrounding the two cases missing the proper assignment of rights. One of the two clients is deceased; the other has relocated to another state, so attempts to obtain the proper assignments are impractical. Should reapplication occur, newly revised forms required by the applicant will ensure the acquisition of the proper assignment of rights. The Department has added the assignment of rights language to several forms in order to become compliant with this regulation.

Updated Response: Corrective Action Implemented as of 3/31/11:

- The assignment of rights language has been added to many forms in order to help ensure the proper assignment is administered to customers.

- The Family Community Resource Center (FCRC) and Regional staff regularly review case records to ensure proper assignment of right signatures are present.

- The application has been streamlined in order to require a signature on the proper page, which fulfills the assignment of rights requirement.

09-13. The auditors recommend DHS review the process and procedures in place to prepare Public Assistance Cost Allocation Plan (PACAP) amendments and implement changes necessary to ensure cost allocation methodologies accurately reflect programmatic activities. (Repeated-2008)

Findings: DHS 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.

During a review of costs allocated to federal programs, auditors noted one cost center for the Chief Financial Office was not included in the cost allocation plan until an amendment was requested for the quarter ended March 31, 2009. Accordingly, the method used to allocate this cost center was not approved for use by USDHHS until January 1, 2009. The costs allocated for the Chief Financial Office during the six months ended December 31, 2009 were $126,701.

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

Updated Response: Corrective Action Implemented as of 3/31/11:

- Plan was amended effective 1/01/09.

RECOMMENDATION 14
Department of Revenue

09-14. The auditors 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. (Repeated-2005)

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

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 testwork, auditors noted IDOR's procedure 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. The data verification procedure is not performed until the middle of the following year and has historically resulted in adjustments to amounts previously claimed.

Further, auditors noted that IDOR does not consider all information available to it when processing the taxpayer's return and paying a refund. During testwork of 60 earned income tax credits (totaling $6,400) claimed under the TANF program, auditors identified:

- one earned income tax credit claimed ($73) was refunded to a taxpayer that was flagged by IDOR for not having a valid W-2 on file. There were 1,427 transactions (totaling $108,096) that had been flagged by IDOR for not having a valid W-2 form on file as questionable and requiring further taxpayer correspondence or investigation to support the taxpayer's return. In discussing this issue with IDOR officials, IDOR responded that they only consider the validity of a taxpayer's W-2 in determining whether to allow claimed State withholding credits, but not to determine whether the taxpayer may or may not have had earned income during the tax year.

- one earned income tax credit claimed ($107) was refunded to a taxpayer whose mailing address was outside of the State of Illinois. IDOR's practice is to process returns showing out-of-State addresses as Illinois residents, unless the filer checks a box indicating that they are a part-year resident or non-resident. As a result, IDOR had not determined whether the earned income tax credit for this taxpayer was allowable under the TANF program. Earned income tax credits for non-military, tax filers with an out-of-State address claimed under the TANF program were $143,511 (totaling 2,400 transactions) during the year ended June 30, 2009. In discussing this issue with IDOR officials, they stated that IDOR does not use the taxpayer's address or compare to other State databases to determine that a TANF claim was for a resident of the State.

In addition, during testwork of 30 earned income tax adjustments (totaling $3,504), auditors noted three earned income tax credit adjustments ($337) which the Department could not locate due to missing batch information. In following up on this exception, the Department determined that the new GenTax system had identified $12,868 in 195 accounts that should have been refunded to the federal government between federal fiscal year 2004 and federal fiscal year 2008; however, due to a system problem, these amounts had not been previously identified and repaid to the federal government.

Earned income tax credits claimed under the TANF program were $14,178,462 during the year ended June 30, 2009.

Updated Response: The Department of Revenue (DOR) disagrees with the finding. The underlying issue is twofold:

1) DOR pays the refundable earned income credit before it is possible to verify that the federal Earned Income Credit (EIC) has been paid by the IRS,
2) DOR requests the draw-down of TANF match for the refundable portion of the tax refund before it is possible to verify that the federal Earned Income Credit has been paid.

DHHS policy and program administrators in Region V and in Washington D.C. validated DOR's process in 2006. The communication, which was approved by Robert Shelbourne, Director State TANF Policy, states: "The State has a reasonable verification process in place. Tax claims are checked against tax returns. Then reconciliation/validation of the tax claim occurs subsequent to actual payment of the refundable portion of the credit – the usual and customary method of reconciliation of tax issues."

DOR pays the Illinois EIC based on the information reported on the taxpayer's Illinois 1040 filing (as required by Illinois Statute, the Illinois EIC is 5% of the federal EIC), before the IRS has shared the federal EIC information, and works with the Illinois Department of Human Services, DHS, to periodically draw-down federal funds to replenish the Refund fund. DOR does not receive the IRS report on federal EICs paid to Illinois taxpayers until October or November. Based on this report, DOR compares what was filed by the taxpayer with the IRS and if necessary, the taxpayer original claim will be adjusted. DOR bills the taxpayer and adjusts the draw-down accordingly. In SFY09, $14,178,462 TANF was claimed through the year and $1,942,048 was refunded to TANF through the federal EICs match process. As a result, at the conclusion of the process, no TANF funds were utilized for ineligible EIC payments.

DOR does not believe it is reasonable to require taxpayers to wait for federal data in order to receive the TANF portion of their refund. The Department believes that splitting a tax refund into two payments would be inefficient, cost prohibitive and confusing to the taxpayer.

45 CFR § 206.10(a)(5)(i) (regulations promulgated by the United States HHS) provides:
Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency's administrative process, and shall be continued regularly to all eligible individuals until they are found to be ineligible.

DOR's procedures are consistent with these express provisions. The earned income tax credit is awarded pursuant to an Illinois income tax return, which is a document signed under penalties of perjury attesting that the filer is eligible for the credit. The Department correctly follows the regulatory procedures when it awards the credit to persons whose Illinois income tax returns show them to be eligible, and only denies the credit when subsequent review of the data received from the IRS shows them to be ineligible.

First Bullet: The auditor questions the eligibility of the taxpayer for a TANF EIC based on the DOR flagging that the taxpayer did not have a valid W-2 on file. It should be noted that the taxpayer identified by the auditor was a **valid** TANF EIC payment. DOR disagrees with auditor's assessment due to the fact that the W-2 **is not** the basis for EIC.

Second Bullet: The auditor questions the eligibility of the taxpayer for a TANF EIC based on the mailing address that is listed on the Illinois 1040 filing.

DOR disagrees with the auditor's assessment due to the fact that the "personal information" (i.e. address) is not the basis of residence for an Illinois taxpayer. It should be noted that the taxpayer identified by the auditor was a **valid** TANF EIC payment.

The GenTax System identified $12,868 that should have been refunded to the federal government. This was not identified previously due to a system problem. The $12,868 was subtracted from the June 2009 EIC report sent to DHS.

Annual Final Determination of TANF Eligibility

When DOR receives the Federal return file, we perform comparisons to the return information filed on the Illinois state return to what is filed on the federal return. There are several line items used in the comparison. The Earned Income Tax (EIC) credit is the first line item compared. If the taxpayer did not receive a federal EIC, then an adjustment record is sent to DHS reducing the entire amount of TANF requested as the taxpayer should never have received any state EIC. If the taxpayer received a federal EIC, then the ages of the dependents are checked. If none of the dependents is 17 or under at the end of the tax year, then an adjustment record is sent to DHS reducing the entire amount of TANF requested as the taxpayer is not eligible for TANF funds. All other adjustments to TANF are done in the monthly updates.

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 State's current procedures allow unallowable costs to be claimed to the TANF program. Our finding and recommendation pertain solely to the timing of the claiming of TANF expenditures, not how IDOR chooses to process refunds or operate the Illinois Earned Income Tax Credit program.*

RECOMMENDATIONS 15-34
Department of Healthcare and Family Services

09-15. The auditors 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. (Repeated-2007)

Findings: Eligibility redetermination procedures implemented by DHFS for the Medicaid and Children's Health Insurance Program (CHIP) are not adequate.

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and CHIP 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, auditors 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, auditors 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 CHIP programs were $7,553,311,000 and $260,867,000 during the year ended June 30, 2009.

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

Response: The Department disagrees with the finding in that the administrative renewal process used by DHFS is a federally allowable policy choice that was adopted by the state in 2006. It has been heavily promoted by the U.S. Centers for Medicare & Medicaid Services as an effective strategy for assuring children do not experience unnecessary breaks in coverage. However, the Department accepts the recommendation and will review the legal, financial and operational issues associated with making changes in the redetermination process. In addition, the Department will review policies used by other states, recommended by civic organizations, legislative committees related to Medicaid reform and recommended as "best practices" by national bodies, boards and think tanks. The Department is also in the process of developing reports to support closer monitoring of the results of the administrative or passive renewal process.

It is important to note that 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 the 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. In December 2009, Illinois received a bonus payment of $9.1 million for increasing enrollment by implementing six of the enrollment and retention measures, including administrative renewals.

Auditors' Comment: *As stated by DHFS in its response, "[t]the State Plan require that eligibility be reviewed annually, but does not specify what procedures are to be used." However, as we point out in the finding, DHFS does not maintain a formal record of the cases subjected to the passive renewal process. Consequently, DHFS could not demonstrate adequately that eligibility in those cases was reviewed or that any effort was made to ensure that a change in circumstances affecting eligibility had not occurred.*

As for DHFS' use of the administrative renewal process, we are aware of provisions in the Children's Health Insurance Program Reauthorization Act of 2009. Since this finding has been repeated for three years, we strongly encourage DHFS to resolve any issues of interpretation through the federal government's finding resolution process.

Updated Response: Under Study. This item is part of the Director's comprehensive plan for reviewing enrollment policies and procedures. That review is currently being conducted. HFS submitted the first system request to develop administrative renewal reports on April 13, 2010. HFS continues to work with DHS programming staff regarding data needed to ensure report accuracy.

09-16. The auditors recommend DHFS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

Findings: DHFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Children's Health Insurance Program (CHIP) and the Medicaid programs.

During test work of 65 CHIP and 125 Medicaid beneficiary payments (totaling $144,047 and $347,725), respectively), auditors selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. In 17 CHIP case files and two Medicaid case files (with medical payments sampled of $8,305 and $65, respectively), DHFS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. Medical payments made on behalf of these beneficiaries for which there was no supporting documentation were $288,727 and $6,728 for the CHIP and Medicaid programs, respectively, during the year ended June 30, 2009.

In discussing these conditions with DHFS officials, they stated the cases identified as exceptions above were subject to the Department's passive redetermination process discussed in finding 09-15.

Response: The Department disagrees with the finding and believes they were in compliance with all State and Federal regulations regarding the renewal process, including documentation and client signature requirements. In addition, the Department provided supporting documentation in the form of the Authorization of Assistance Action (552) showing the cases were passively redetermined, which according to policy did not require client signature. The administrative renewal process is automated and does not necessarily require any documentation in the case file as the renewal is recorded automatically by the data system.

However, the Department accepts the recommendation and will review the legal, financial and operational issues associated with making changes in the redetermination process. The Department will review policies used by other states, recommended by civic organizations, legislative committees related to Medicaid reform and recommended as "best practices" by national bodies, boards and think tanks.

The Department respectfully notes that the auditors found no evidence that the cases reviewed did not comply with policy established by the Department. Instead, the auditors fault the policy itself and the Department has agreed to review that policy. There is no requirement in law or rule for a signed renewal form. All redeterminations were performed in accordance with federal regulations and State Plans. The fact that the audit found that "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;" supports the validity of the administrative renewal process for children's healthcare coverage.

Auditors' Comment: DHFS was unable to provide documentation to support the exception cases identified in the finding above were redetermined in accordance with the Department's established procedures or that they were subject to the passive redetermination process. Accordingly, all information necessary to establish and support the eligibility of these individuals for the period was **not** available.

Updated Response: Under Study. This item is part of the Director's comprehensive plan for reviewing enrollment policies and procedures. That review is currently being conducted. HFS submitted the first system request to develop administrative renewal reports on April 13, 2010. HFS continues to work with DHS programming staff regarding data needed to ensure report accuracy.

09-17. The auditors 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. (Repeated-2008)

Findings: DHFS is not paying practitioner medical claims for individuals receiving benefits under the Children's Health Insurance Program (CHIP) 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 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. Further, under the American Reinvestment and Recovery Act (ARRA) signed into law on February 17, 2009, states must comply with these claims processing requirements or lose their eligibility for the increased Federal medical assistance percentage (FMAP) for certain expenditures. Subsequent to February 17, 2009, any practitioner claim received on a day in which the State was not in compliance with the claims processing requirements is ineligible to receive the increased FMAP rate.

During the review of the analysis covering practitioner medical payments during State fiscal year 2009 prior to the enactment of ARRA, auditors noted medical payments were not made within the payment timeframes required by federal regulations. Management's analysis summarizes claims received and later paid in the manner on the following page.

Management's daily analysis of claims paid after the enactment of ARRA identified 33 days in which the State was not in compliance with the claims processing requirements. The State received claims totaling $59,366,343 on those days, resulting in $6,140,554 of lost federal reimbursement.

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

Month	Number of Claims Received	Claims Paid Within 30 Days	Percentage Paid Within 30 Days	Claims Paid Within 90 Days	Percentage Paid Within 90 Days
July	2,078,948	1,409,974	67.82%	2,077,341	99.92%
August	2,786,530	991,060	35.57%	2,203,355	79.07%
September	2,399,700	1,271,237	52.97%	1,703,382	70.98%
October	2,660,969	238,566	8.97%	1,662,262	62.47%
November	2,340,085	1,408,804	60.20%	2,199,102	93.98%
December	2,535,486	1,785,027	70.40%	2,507,576	98.90%
January	2,249,249	1,069,934	47.57%	2,241,745	99.67%
February	2,562,499	2,408,329	93.98%	2,551,072	99.55%
Total	**19,613,466**	**10,582,931**	**53.96%**	**17,145,835**	**87.42%**

Updated Response: Accepted. The Department acknowledges some medical practitioner bills were not paid within timeframes established by federal regulations. In FY09 and subsequent fiscal years, the Department received General Revenue Fund (GRF) appropriations sufficient to pay those providers within the prescribed timeframes. A major reason for late payments was the lack of available GRF cash resources to actually pay the bills in a timely fashion. Changes to internal HFS processes will not change the state's underlying GRF cash-flow challenges.

09-18. The auditors recommend DHFS implement procedures to ensure provider audits are performed and completed in a timely manner. (Repeated-2008)

Findings: DHFS did not initiate and complete audits of providers of the Children's Health Insurance Program (CHIP) and Medicaid programs in a timely manner.

The DHFS Office of Inspector General (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 CHIP 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 testwork over 60 providers recommended by the OIG for audit, auditors noted there were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, 21 of the 60 provider audits tested had not been started as of the date of testwork. The number of days that had elapsed between the date the provider was recommended for audit and the date of testwork (December 2, 2009) ranged from 461 to 1,695 days. For the 39 provider audits completed, the number of days that had elapsed between the dates the provider was recommended for audit and the audit start date ranged from zero to 1,089 days.

In addition, provider audits were not completed in a timely manner. Specifically, the length of time to perform the 39 completed provider audits selected in testwork ranged from seven to 1,121 days.

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

Response: The Department accepts the 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. 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.

Updated Response: Implemented. The OIG has implemented new controls to help ensure that provider audits are completed within 180 days. Audit caseloads are monitored more closely to identify any audits that are taking longer than expected. This approach allows OIG management to provide assistance to the auditor or approval of exception to completion of audits beyond 180 days. In addition OIG management more closely scrutinizes potential audit cases before assigning cases to the auditors so that the number of cases in the audit queue is more consistent with the number of audits expected to be completed during a given time period.

09-19. The auditors recommend DHFS review its current process for performing Medicaid Eligibility Quality Control (MEQC) reviews and consider changes necessary to ensure reviews are completed in a timely manner and summary reports are submitted within the timeframes required by CMS. (Repeated-2008)

Findings: 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 CHIP 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), Redetermination Accuracy Review (Redetermination), Health Benefits for Workers with Disabilities Review, and Passive Redeterminations.

During a review of 20 pilot program reviews (10 Redetermination reviews and 10 Health Benefits for Workers with Disabilities reviews) completed in FY09, auditors noted reviews were not completed within a reasonable timeframe. Specifically, the reviews were completed as follows:

Timeframe	Number of Reviews
0-60 days	7
61-120 days	2
121-180 days	6
181-240 days	3
240 + days	2

In discussing these conditions with DHFS officials, they stated they are in compliance with the federal requirements as stated in the MEQC pilot guidelines.

Response: The Department respectfully disagrees with the finding. The OIG provided KPMG all guidance as prescribed by the federal government in relation to the MEQC pilot requirements. Per federal CMS, the guidelines for conducting MEQC pilots are:

Requirement #1 - the submittal of a sampling plan - includes a response to each of the areas (purpose, method, cost-effective, training, etc.) listed in the March 1999 letter

Requirement #2 - maintaining MEQC staffing levels by redirecting staff in a maintenance effort that equals or exceeds current program requirements

(Program requirements for the traditional MEQC included 875 required case reviews each six month sampling period at 7.8 hours each totaling 13,650 hours annually)

Requirement #3 - the submission of findings by August 1 for the previous year's reviews
The OIG also provided KPMG all documentation to support compliance with the MEQC pilot requirements.

Requirement #1 - Submitted a sample plan on August 10, 2007 and received approval on September 27, 2007,

Requirement #2 - Maintained MEQC staffing levels by completing at least 13,650 hours annually, and

Requirement #3 - Submitted the summary of findings on July 29, 2009.

To address KPMG's concerns on the timeliness of reviews, the OIG performed an evaluation (which was shared with KPMG) of all 689 reviews associated with the HBWD pilot, which is the review associated with the KPMG audit period. The evaluation found 2 out of 689 cases reviewed (or less than 3 tenths of 1 percent), whereas, for those cases that required a corrective action following the MEQC review, the local office was not notified within 210 days. The 210 day timeframe was utilized as this is associated with the Traditional MEQC guidelines, whereas the pilot reviews do not stipulate a time line. This 100% analysis was performed to address the control risk as identified by KPMG and resulted in less than a .3% materiality impact.

Auditors' Comment: *As discussed in the finding above, of the 20 case reviews tested, five (or 25%) were completed more than 180 days after they began. We acknowledge there is not a timeframe identified in the regulations for pilot reviews; however, we do not believe it was the intention of USDHHS to provide unlimited time to complete case reviews.*

09-20. The auditors 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. (Repeated-2008)

Findings: DHFS did not perform adequate on-site monitoring procedures for subrecipients of the Child Support Enforcement program. DHFS passes through Child Support program funding to

various local governments within the State to administer particular aspects of operating the program.

During a review of the on-site monitoring procedures performed by DHFS for a sample of 15 subrecipients of the Child Support program with expenditures of $26,089,973 during the year ended June 30, 2009, auditors 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 Child Support 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 discussing these conditions with DHFS officials, they stated they believe their procedures are sufficient to allow reasonable evaluation and 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.

Updated Response: Accepted. The Department is developing a Risk Assessment Monitoring Tool and procedures for Division of Child Support Services (DCSS) contracts. Upon completion of the Tools and monitoring procedures, DCSS will have the internal auditors review before implementing.

09-21. The auditors recommend DHFS establish procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133. (Repeated-2008)

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

During testwork over OMB Circular A-133 audit reports for fifteen subrecipients of the Child Support Enforcement program and ten subrecipients of the LIHEAP program with expenditures of $9,749,000 and $146,739,000, respectively, during the year ended June 30, 2009, auditors noted no management decisions were issued in the following instances:

- The A-133 audit report for a subrecipient of the Child Support Enforcement program and Medicaid Cluster reported three separate instances of noncompliance which were considered material weaknesses and related to both programs. DHFS did not issue a management decision relative to these findings or follow up on the conditions identified in the findings.

- The A-133 audit report for one subrecipient of the Child Support Enforcement program reported the subrecipient did not act upon referrals received from DHFS for the

establishment of parentage and enforcement of child support collections within the federally mandated time frames.

- The A-133 report for one subrecipient of the Low Income Home Energy Assistance Program reported a material weakness related to inadequate segregation of duties.

In discussing these conditions with DHFS officials, they stated that although a management decision was not issued relative to the instances previously identified, follow up was performed on each finding to determine the corrective action plan appeared reasonable.

Response: Implemented. 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. This procedure requires utilization of a Corrective Action Review Sheet identifying the applicable DHFS CFDA number along with a description of the entity's corrective action. Approval of the corrective action is obtained from the respective program area prior to issuance of a management decision letter. The Department believes proper procedures were followed, in all three cases cited by the auditors, and follow up on the conditions identified in the findings were performed.

Auditors' Comment: *As identified in the finding above, DHFS could not provide documentation supporting management decisions were issued in accordance with OMB Circular A-133.*

09-22. The auditors recommend DHFS develop procedures to ensure that the quarterly certifications submitted by various Bureaus and Divisions are accurate and consistent with actual payroll records.

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

In order to certify time worked on the federal programs, DHFS requires employees to prepare monthly timesheets. In addition to the individual monthly time sheets, DHFS also requires some of the Bureaus and Divisions to submit quarterly certifications summarizing the total hours worked on the federal programs. These quarterly certifications are used for the purpose of performing cost allocations and are designed to summarize each individual employee's monthly time sheet certifying the number of hours worked per program each month. The quarterly certifications are certified by the respective manager, Bureau Chief, or administrator.

During a review of costs allocated to federal programs during the quarter ended March 31, 2009, auditors noted the total of hours recorded on monthly employees' time sheets for the Attorney General Office and Division of Medical Programs did not agree to the quarterly certifications provided to DHFS. As a result, the Child Support Enforcement and Medicaid Cluster were erroneously allocated costs totaling $1,156 and $144, respectively, during the year ended June 30, 2009.

In discussing these conditions with DHFS officials, they stated the allocation errors were the result of staff oversight.

Response: Implemented. Prior period adjustments for the amount of the questioned costs have been made. Additional procedures have been implemented to ensure the quarterly certifications are accurate and consistent with payroll records.

09-23. The auditors recommend DHFS develop comprehensive written procedures for determining which subrecipients should be selected for on-site reviews. (Repeated-2008)

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

DHFS passed through approximately $55,907,000 in Medicaid funding to the Local Education Agencies (LEAs) and County Health Departments (CHDs) during the year ended June 30, 2009 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care.

During a review of the monitoring procedures performed by DHFS for 30 subrecipients, auditors 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. Auditors noted only 109 LEAs and three CHDs were subject to on-site reviews out of approximately 893 LEAs and 84 CHDs that received Medicaid funding during the year ended June 30, 2009.

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

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. With limited administrative resources, it is inefficient to use a risk score alone, without considering other actions that may address the identified risk. For example an LEA may have just received a site visit at the end of the previous fiscal year. In fact, all of the LEAs with high-risk scores that did not have site visits in fiscal year 2009 did receive site visits in fiscal year 2008. These LEAs continued to receive additional scrutiny in fiscal year 2009 as a result of the prior 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.

The Department continues to disagree with just establishing an automatic threshold triggering a site visit and provided additional documentation to the auditors describing why certain site visits were not appropriate.

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.

Updated Response: Implemented. The Department has revised written procedures to clarify which subrecipients are selected for on-site reviews. The procedures were updated to reflect a revised monitoring process implemented in FY10.

Effective FY10, all participating LEAs must submit administrative claims through a single vendor under the direction of the department. That vendor has implemented a state-wide random moment time study methodology (RMTS) in order to document LEA costs. This process utilizes a centralized coding process. All LEAs are required to file claims through the statewide RMTS vendor, thereby reducing the risk associated with multiple interpretations of Medicaid coding. This new approach was recommended to the department, and approved, by the federal Centers for Medicare and Medicaid Services. These changes have lead to improved internal controls resulting in fewer high risk areas.

09-24. The auditors recommend DHFS establish procedures to ensure that vendors contracting with DHFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

Findings: DHFS did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Child Support Enforcement, Medicaid Cluster, Children's Health Insurance Program, and Low Income Home Energy Assistance Program (LIHEAP).

During a review of 15 vendors of the Child Support Enforcement program and 15 vendors allocated to all federal programs, auditors noted DHFS did not include a suspension and debarment certification in ten of its vendor agreements. Additionally, DHFS did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for vendors.

In discussing these conditions with DHFS officials, they stated solicitation and contract documents provided by the Department of Central Management Services (CMS) and utilized by CMS and State agencies did not contain adequate suspension and debarment certification language.

Response: Implemented. The solicitation and contract documents provided by CMS and utilized by the Department have been updated as of April 25, 2010 and now include required disclosures and certifications for suspension and debarment.

09-25. The auditors recommend DHFS review its current process for calculating provider reimbursements and consider the changes necessary to ensure providers are properly reimbursed anytime reimbursement rates are retroactively revised.

Findings: DHFS did not properly reimburse a provider for a retroactive rate adjustment to its Medicaid Percentage Adjustment (MPA) payment rate.

During testwork of Medicaid Cluster program beneficiary payments, auditors selected a sample of 125 Medicaid beneficiary payments to review for compliance with eligibility requirements and for

the allowability of the related benefits. In the review of a provider reimbursement for one of the Medicaid beneficiary payments the reimbursement selected in testwork was calculated using a MPA rate that was subsequently revised on January 26, 2009. The revised rate was retroactive back to October 1, 2008 and covered the payment selected for testwork. However, no adjustment was made to this reimbursement for the retroactive rate revision and the hospital was under reimbursed $82 due to the error. As a result of this rate revision, this hospital was under reimbursed a total of $46,795 during the year ended June 30, 2009.

Response: The Department accepts the finding and has moved to initiate a more formal follow-up process to assure timely processing of rate adjustments. The rate adjustments identified were the result of an appeal by the provider, which was subsequently granted. Rate adjustments have been identified and forwarded for processing.

09-26. The auditors recommend DHFS modify the standard provider applications and enrollment agreements to require providers to supply the required information about ownership and control, business transactions, and criminal convictions.

Findings: DHFS does not require providers of the Medicaid Cluster to provide specific information related to all required disclosures about ownership and control, business transactions, and criminal convictions.

During testwork of Medicaid program providers, auditors selected a sample of 30 Medicaid providers to review for compliance with provider eligibility requirements. In the review of provider applications and enrollment agreements, auditors noted the DHFS standard provider applications and agreements did not address all elements of the required disclosures about ownership and control, business transactions, and criminal convictions.

In discussing these conditions with DHFS officials, they stated that according to CMS in 2003, the federal disclosure statement (CMS 1513) had been discontinued. Therefore, the Department ceased requiring the CMS 1513 form in September 2007, when its existing stock was exhausted.

Response: Accepted. The Medicaid providers reviewed in the sample above had provider disclosure statements, which were provided to the auditors.

Historically, the Department used the federal disclosure statement (CMS-1513), to gather the required information. When Department staff contacted CMS in 2003, they were informed that the form was discontinued June 15, 2003 and no document replaced the form. Therefore, the Department believed that the disclosure requirement had been discontinued.

However, there has always been a requirement on the Provider Application that providers comply with 42 CFR 455 Subpart B. When applicable, providers are to supply documentation to the department that meets the definition of the CFR citation.

In June 2006, CMS redesigned the CMS-1513 and again placed it into production for their providers. In June 2009, the Department instituted a redesigned Enrollment Disclosure Form with the desired information for all new enrolled providers.

Auditors' Comment: *As discussed in the finding above, DHFS did not obtain federal disclosure statements from September 2007 through June 2009 for providers of the Medicaid Cluster. The disclosures referenced by DHFS in the provider applications and enrollment*

agreements are general in nature and do not include specific disclosures on ownership and control, business transactions, and criminal convictions.

09-27. The auditors recommend DHFS obtain written documentation of the assignment of medical support rights from all Medicaid beneficiaries.

Findings: DHFS 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. DHFS 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 testwork over the Medicaid programs, auditors selected eligibility files for 125 Medicaid beneficiaries to review for compliance with eligibility requirements and for the allowability of the related benefits. Specifically, 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.

In discussing these conditions with DHFS officials, they stated this resulted from human error and was an inadvertent oversight by staff.

Response: The Department accepts the finding. It is the Department's policy to obtain a signature on all applications, but the Department acknowledges that, in one isolated incident, a case was missing the signature page. The case in question had been transferred from the Department of Human Services to DHFS. By the time of the audit, DHS had sent the record containing the original assignment of medical support rights to storage and DHFS was advised that it had been destroyed. For that reason it could not be retrieved. DHFS has since obtained a new signature page assigning medical support rights to the State for this case. The ultimate solution for this kind of error will be to adopt electronic imaging for managing all cases. In the meantime, DHFS will work with DHS to minimize the chance of pages being lost from case records especially when they are transferred between the two agencies.

Updated Response: Accepted. The case in question was updated before the audit was closed. The Department does not, however, have the resources to implement electronic imaging for all cases at this time.

09-28. The auditors recommend DHFS implement procedures to ensure cash draws are performed in accordance with the Treasury State Agreement. (Repeated-2008)

Findings: 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).

During testwork over 60 payments to subrecipients of the Medicaid Cluster program, auditors 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, 2009, the number of days cash was drawn in advance of actual cash outlays ranged from one to 82 days.

In discussing these conditions with DHFS officials, they stated since these funds are not drawn until after acceptance of the Department's federal claim, they do not believe the TSA applies to these transactions.

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 the auditors 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 of 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 after 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 when that expenditure is made by the LEA 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.

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 and may result in an interest liability to the US Treasury.*

09-29. The auditors 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. (Repeated-2008)

Findings: 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).

During testwork over the June 30, 2008 interest liability calculation (submitted in fiscal year 2009), auditors noted the TSA does not include a methodology for calculating an interest liability for the LIHEAP program. As a result, DHFS calculated its 2008 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.

In discussing these conditions with DHFS officials, they stated the TSA was amended to include the LIHEAP program under DHFS, but a reference to the LIHEAP program in a later section of the TSA describing DHFS' program methodologies was inadvertently omitted.

Response: The Department accepts the finding and implemented the recommendation for the TSA for the year ended June 30, 2009.

09-30. The auditors recommend DHFS implement procedures to ensure assistance reconciliations of the Medicaid Cluster are performed and completed in a timely manner and that adjustments needed as a result of those reconciliations are made to future draws.

Findings: DHFS did not complete quarterly cash management reconciliations of cash draws to actual expenditures for assistance payments made under the Medicaid Cluster in a timely manner which resulted in errors in its expenditure claim report not being identified timely.

DHFS' cash management process includes making assistance cash draws on a daily basis based on actual warrants issued the previous day, an estimate of the agency's overall federal participation rate, and any expected refunds. At the end of each quarter, DHFS reports actual assistance expenditures of the Medicaid Cluster to USDHHS through the claim reporting process. Since cash draws are performed using an estimate throughout the quarter, on a quarterly basis DHFS reconciles cash draws performed during the quarter to actual expenditures, as reported on the quarterly expenditure claim report, to calculate whether DHFS is in a net overdrawn or underdrawn position. Based on the results of this reconciliation process, DHFS adjusts future cash draws to ensure the amount of funds drawn match actual expenditures.

Auditors noted DHFS did not perform these reconciliations as it relates to assistance payments for the quarters ending March 31, 2009 and June 30, 2009 in a timely manner and did not adjust future cash draws based on the results of these reconciliations. Based on the results of these reconciliations, the agency was in an overdrawn position of $178,023,000 as of March 31, 2009 and an underdrawn position of $145,090,000 as of June 30, 2009. In addition, upon investigating the overdrawn position as of March 31, 2009, DHFS discovered $112,679,000 of claimable expenditures was excluded from the March 31, 2009 quarterly expenditure claim report in error. Since this reconciliation was not performed timely, the error was not discovered in time to include the expenditures in the March 31, 2009 quarterly expenditure claim. As a result the expenditures

were claimed as a prior period increasing adjustment on the subsequent quarterly expenditure claim.

In discussing these conditions with DHFS officials, they stated the reconciliations fell behind due to an unexpected staffing vacancy and the resulting re-training and re-assignment of duties.

Response: Implemented. Reconciliations have been completed through the most recent quarters claim and all adjustments are scheduled for completion by June 30, 2010. The quarterly reconciliation process was re-assigned to a full-time staff position in fiscal year 2010.

09-31. The auditors recommend DHFS follow procedures established to ensure interviews with custodial parents are performed on a timely basis. DHFS should ensure the results of interviews with custodial parents are documented along with attempts to obtain additional information or locate the non-custodial parent. (Repeated-2001)

Findings: DHFS did not conduct interviews with custodial parents in a timely manner. During testwork of 60 child support cases, auditors noted two cases in which interviews with custodial parents were scheduled late, ranging from one to 64 days after the referral or receipt of application.

In discussing these conditions with DHFS officials, they stated the two cases identified in the finding were inadvertent staff errors.

Response: The Department accepts the finding. Although the Department continues to improve in this area, the Department's Division of Child Support Enforcement (DCSE) will continue to review cases that are identified in audits and routine casework where case management action has not occurred appropriately. The Illinois Child Support program is a highly automated program. Where appropriate, DCSE will refer the audit cases to the appropriate workgroup for review. Department staff is reminded on a continuing basis at their monthly staff meeting and quarterly Field Operations leadership meeting regarding the necessity to document all actions taken on a case.

09-32. The auditors 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. (Repeated-2006)

Findings: 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.

During testwork of 30 initiating and 30 responding cases (total of 60 cases), auditors noted two initiating cases 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 four and 378 days after the required federal timeframe.

In discussing these conditions with DHFS officials, they stated they disagree with the two initiating case exceptions and the one responding case exception was due to worker oversight.

Response: Accepted. One of the cases cited was federally closed prior to the audit period, there was no child under 18 (emancipation) and the only reason the case was marked initiating interstate was to document payments from the other State (Iowa). The Department agrees with the other case cited and is engaged in ongoing continuous process improvement efforts focusing on the area of interstate case processing. These include conducting annual interstate case reconciliation processes between OCSE and the State, reviewing monthly newly initiated interstate cases, and identifying needed PIR's for priority production.

Auditors' Comment: *In our testwork, we noted the non-custodial parent was located on December 5, 2008 in the responding state and the case was subsequently coded as an initiating interstate case and forwarded to the central case registry on January 5, 2009 which was four days in excess of 20 calendar day federal requirement. Department management stated that this case was not subject to the required timeframes and procedures for initiating interstate cases since the case was federally closed prior to our audit procedures, had no children under 18, and was only marked initiating interstate to document payments from the other State; however, an open support order against the non-custodial parent was currently being enforced under the case tested.*

09-33. The auditors 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. (Repeated-2004)

Findings: DHFS did not adequately perform procedures to ensure support orders were established within required time frames.

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During testwork of 60 child support cases, auditors noted one case for which DHFS did not initiate support order procedures within the federally prescribed 90-calendar day timeframe. The delay in establishing the support order was 43 days in excess of the 90 calendar day requirement.

Response: The Department respectfully disagrees with the finding. The Department referred the case in question to the Cook County State's Attorney on 1-5-08, 41 days from receipt of the case and completed service of process on 1-29-08, 55 days from the other states request. The final court order was made retroactive back to the date of service, 1-29-08. The Department will continue to ensure that procedures are followed and support orders are established within the required timeframes.

Auditors' Comment: *In our testwork, we noted the non-custodial parent was located on October 21, 2008 and the support obligation court order was processed on March 3, 2009 which was 43 days in excess of 90 calendar day federal requirement. Department management stated that the dates referenced in the response above are the retroactive dates on which the support order was effective; however, these dates are not relevant to the condition identified in this finding.*

09-34. The auditors recommend DHFS implement procedures to ensure allocation methodologies are included in its PACAP for all cost centers. (Repeated-2008)

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

During a review of costs allocated to federal programs during the quarter ended March 31, 2009, auditors 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 CHIP and Medicaid Cluster to allocate these cost centers; however, this method was not approved for this cost center. After this item was identified in the 2008 audit, DHFS submitted a PACAP amendment to include this methodology effective April 1, 2009.

In discussing these conditions with DHFS officials, they stated an amendment to clarify the PACAP language was submitted in May 2009.

Response: The Department accepts the finding and has implemented the recommendation. The Department submitted an amendment to its PACAP with an effective date of April 1, 2009 clarifying the language regarding the allocation of the "Special Assistant for HIPPA and Computer." The USDHHS Division of Cost Allocation approved the amendment in October of 2009 effective April 1, 2009. The Department believes the allocation methods for all cost centers are now appropriately defined in the PACAP.

RECOMMENDATIONS 35-39
Department of Children and Family Services

09-35. The auditors recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations and adequate documentation of special needs exists for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed. (Repeated-2005)

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

During testwork of Adoption Assistance beneficiary payments, auditors reviewed 50 case files for compliance with eligibility requirements and allowability of related benefits and noted in one case, 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 this child totaling $2,930 during the year ended June 30, 2009.

In discussing these conditions with DCFS officials, they stated the document requested for the case opened in 1993 was received a number of years ago and was thought to have been filed with in the original case file. When the file was retrieved, the determination needed was not included and apparently had been misplaced.

Response: The Department agrees and has recently instituted a pre-subsidy completion review process in order to assure that all required documentation is in the records before claiming.

Changes are made, as necessary after on-going reviews, to procedures for obtaining and retaining documents to ensure copies initial judicial determinations and other required documents are retained for all children. DCFS will also conduct an additional review for the one missing document and, if obtaining a copy of the determination is not possible, the Department will make the appropriate claiming adjustment for actual amount claimed for the one beneficiary payment questioned by the auditor.

09-36. The auditors 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. (Repeated-1999)

Findings: DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the TANF Cluster, Foster Care, Adoption Assistance, and Social Services Block Grant programs.

In a sample of 60 subrecipient monitoring files out of a total of 177 subrecipients, auditors noted that on-site fiscal and administrative monitoring procedures were performed for only four subrecipients. Upon further discussion with management, auditors noted on-site monitoring procedures have only been performed for 17 of 177 total subrecipients. Additionally, auditors noted fiscal and administrative monitoring procedures did not adequately address all direct and material compliance requirements.

In discussing these conditions with DCFS officials, they stated the desk review, which is the annual review of audited financial statements, OMB A-133 audits, and related reports from the provider's independent CPA's (annual audit package), is the principle basis for the fiscal monitoring of sub-recipients.

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.

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 cannot be made at this time.

The Department has also begun initiatives to increase productivity by improving efficiency of its staff and seek other resources to obtain increased coverage. 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.

09-37. The auditors 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. (Repeated-2006)

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

During a review of the eligibility for 50 beneficiaries receiving recurring subsidy payments under the adoption assistance program, auditors noted seven instances in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period.

In discussing these conditions with DCFS officials, they stated 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.

Response: The Department has instituted a multi-step routine, automated adoption recertification process which should ensure that all recertification's are performed timely.

09-38. The auditors recommend DCFS review the current process for reporting financial information to the IOC and implement changes necessary to ensure expenditures under ARRA awards are separately identified.

Findings: DCFS did not separately identify expenditures from American Recovery and Reinvestment Act (ARRA) awards under the Foster Care and Adoption Assistance programs.

Specifically, auditors noted DCFS received approximately $6,083,000 and $6,810,000, from enhanced federal participation rates under ARRA for the Foster Care and Adoption Assistance programs, respectively. However, the corresponding expenditures from the enhanced federal participation rates were reported with federal expenditures from non-ARRA awards. Upon identification during the audit, DCFS prepared revised SCO forms which resulted in the expenditures being properly reported in the SEFA and data collection form.

In discussing these conditions with DCFS officials, they stated the SCO forms were filed with the Comptroller by the original due date following instructions provided at that time. However, due to subsequent changes in the forms by the Comptroller additional information was provided when requested and included an allocation of expenditures to reflect enhanced rate expenditures for ARRA proposes from regular program expenditures.

Response: Implemented.

09-39. The auditors recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements. (Repeated-1999)

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

During a review of 60 case files selected for testwork, auditors noted nineteen of the initial case plans were completed within a range of two to 81 days over the 60 day federal requirement.

In discussing these conditions with DCFS officials, they stated 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.

Response: The Department agrees and continues to stress the importance of adequate and timely documentation for child case files through training and communications to all case staff. 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. Additionally, a workgroup has established a 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 continuing. We continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

RECOMMENDATIONS 40-42
Department on Aging

09-40. The auditors 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. (Repeated-2003)

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

During testwork over eight subrecipients of the Aging Cluster with total expenditures of approximately $24,092,000, auditors noted on-site monitoring procedures had not been performed since 1998 for any the subrecipients selected. Upon further discussion with Agency personnel, auditors noted fiscal on-site monitoring procedures were not performed during the year ended June 30, 2009. However, during the fiscal year, IDOA has implemented a pilot program to perform specific on-site reviews over internal controls related to the operation of the program at each AAAs.

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

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. The Department will continue the development of procedures concerning the responsibilities of the subrecipient review process.

09-41. The auditors recommend IDOA establish procedures to ensure that: (1) desk reviews are performed on a timely basis for all subrecipients, (2) expenditures reported by the subrecipients are reconciled to the schedule of expenditures of federal awards submitted in the OMB Circular A-133 audit reports, and (3) supervisory reviews are documented to evidence their completion. (Repeated-2006)

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

During testwork of eight subrecipients of the Aging Cluster with total expenditures of approximately $24,092,000 auditors 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. Additionally, a desk review was not completed for this subrecipient. Amounts passed through to this subrecipient approximated $9,939,000 during the year ended June 30, 2009.
- Evidence of a supervisory review of an A-133 desk review checklist was not documented for one subrecipient. Amounts passed through to this subrecipient approximated $2,005,000 during the year ended June 30, 2009.

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.

Response: The Department concurs in the finding and recommendation. Although staffing shortages have contributed to the finding, the Department will improve upon the current procedures and tools used to perform desk reviews on a timely basis, reconcile the schedule of expenditures of federal awards submitted in the audit report to Department records timely and complete supervisory reviews.

09-42. The auditors 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. (Repeated-2006)

Findings: 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.

During test work auditors noted that IDOA requires its subrecipients to prepare a quarterly reconciliation of their net cash position; however, IDOA does not reduce a subrecipient's cash advance if the reconciliation identifies the subrecipient has excess cash on hand. As a result, subrecipients remitted approximately $98,700 in interest earned on excess federal funds to IDOA. Additionally, IDOA does not have a process in place to determine if the interest remitted is reasonable.

In discussing these conditions with IDOA officials, they stated subrecipients are not able to provide monthly expenditure reporting, therefore, the actual expenditures are reconciled on a quarterly basis.

Response: The Department concurs in the finding and recommendation. The Department will review its policies and procedures for advance funding with program managers and fiscal staff to develop a methodology that will assist in creating a more efficient projection of the 30 day advance funding.

RECOMMENDATIONS 43-47
DEPARTMENT OF PUBLIC HEALTH

09-43. The auditors recommend IDPH implement procedures to (1) verify income and insurance information with third party sources (i.e. employers, third party insurers, etc.) and other State agencies and (2) perform recertifications of eligibility every six months. (Repeated-2004)

Findings: IDPH does not have an adequate process for performing client eligibility determinations for its HIV Grant 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. 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 testwork of benefits provided to HIV beneficiaries, auditors selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits and noted the following:

- In seventeen cases, the beneficiary's application indicated the beneficiary had no income. As a result, no income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.
- In one case, no verification of income was documented in the beneficiary file.

Additionally, IDPH only recertifies (redetermines) eligibility of beneficiaries on an annual basis, instead of every six months as required by program requirements.

In discussing these conditions with IDPH officials, they stated that sound public health policy dictates presumptive eligibility for ADAP.

Response: The department concurs in the finding and recommendation. ADAP staff conduct regular monthly Medicaid enrollment verification with the Illinois Department of Healthcare and Family Services to ensure that ADAP clients were not dually enrolled. IDPH believes that Medicaid enrollment, not Medicaid eligibility, should be the appropriate criterion for determining a beneficiary's eligibility for ADAP. This ensures that needed medicines are provided to clients at the earliest opportunity. Additionally, the Department verifies with the dispensing pharmacy (CVS) upon each fill the insurance and Medicaid enrollment status. When it is determined that an ADAP client has been actively enrolled in Medicaid, the Department's dispensing pharmacy is able to back bill for services to Medicaid. Thus, recapturing expended costs and ensuring that the client has been served.

Updated Response: Implemented. All clients who are new or reapplying to ADAP after April 1, 2010 are required to reapply for ADAP every 6 months. Applicants renewing their ADAP application will also be subject to this new requirement at their annual anniversary. At that point, they too will subject to the 6 month recertification process.

09-44. The auditors 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. (Repeated-2005)

Findings: IDPH does not have an adequate process for ensuring subrecipients of the CDC Investigations and Technical Assistance program 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. During testwork over 30 subrecipients of the CDC Investigations and Technical Assistance program, auditors noted the following:

- There was one subrecipient of the 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 two subrecipients of the 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-up procedures performed by IDPH. Specifically, these reports were received between 49 and 70 days after the nine month requirement.

Additionally, a standard checklist was not used to document the review of subrecipient A-133 reports received from subrecipients of the programs 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 reconciled to IDPH records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

In discussing these conditions with IDPH officials, they stated that staffing shortages have limited their ability to meet these requirements.

Updated Response: Accepted. The Department closely reviews audit reports for the audit opinion issued and the schedule of federal assistance. The Department forwards any applicable findings and management responses to appropriate program offices for follow-up. The Department will continue to monitor receipt of audit reports from its subrecipients and be more diligent in its follow up to obtain any missing reports. Recently, a report dealing with audit redundancies (mandated by PA96-1141) was submitted to the General Assembly which in part recommended the consolidation of A-133 audit reports to one central location.

09-45. The auditors 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. (Repeated-2004)

Findings: IDPH is not adequately performing on-site monitoring of subrecipients receiving federal awards under the CDC Investigations and Technical Assistance and HIV Grant Programs.

IDPH monitors subrecipients of the CDC Investigations and Technical Assistance program; however, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of the subrecipients. During testwork of 30 subrecipients of the CDC Investigations and Technical Assistance program and six subrecipients of the HIV Grant, seven CDC Investigations and Technical Assistance subrecipients and one HIV Formula Grant subrecipient were not subject to a regular on-site programmatic review.

In discussing these conditions with IDPH officials, they stated staffing shortages continue to hamper some routine monitoring efforts.

Response: The Department concurs in the finding and recommendation. Multiple staffing shortages within the HIV Section have now been filled. These vacancies had previously contributed to this finding. An internal guidance document has been drafted to address onsite evaluations of agencies receiving grant funds to appropriately monitor subrecipients and fulfill our required federal grant oversight function.

Updated Response: Implemented. In spring 2010, all subrecipients of CDC HIV funds received at least one site visit. These site visits were conducted by IDPH staff and included both programmatic and fiscal reviews. Quarterly data monitoring has also occurred in Spring 2010. These quarterly reports assess progress toward program objective completion compared with funds expended.

09-46. The auditors 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. (Repeated-2005)

Findings: IDPH does not have an adequate process for monitoring interagency expenditures used to satisfy the maintenance of effort (MOE) requirement for the HIV program.

HIV program MOE expenditures are incurred by the Illinois Department of Children and Family Services (DCFS). IDPH has executed an interagency agreement with DCFS which requires periodic reporting of summary level expenditure information for preparation of the required financial reports. During testwork over MOE expenditures, auditors 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.

In discussing these conditions with IDPH officials, they stated staffing shortages have prevented proper monitoring.

Updated Response: Implemented. IDPH staff met with other state agencies to ensure that reported MOE expenditures corresponded to the appropriate grant reporting periods, thus establishing more effective internal controls of MOE requirements for the HIV Care Formula grants. The greater oversight of other state agency expenditures ensured that non-IDPH appropriated state expenditures were not otherwise claimed as MOE expenditures for the federal Social Services Block Grant.

09-47. The auditors 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. (Repeated-2007)

Findings: IDPH did not investigate complaints received relative to providers of the Medicaid within required timeframes of 30 days unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within seven days of receipt. State timeframes, which are more strict, are required to be followed.

During testwork over 60 complaints filed against Medicaid providers during the year ended June 30, 2009, auditors identified sixteen complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from three to 35 days in excess of required timeframes.

In discussing these conditions with IDPH officials, they stated shortage of staff for this time period, especially in one regional office, contributed to several complaints not being initiated in the required timeframes.

Updated Response: Implemented. SB326 was passed and signed by the Governor. The Department received authorization to hire additional staff in FY2011 and continues to do so. In FY2012, resulting from the passage of SB3088 (provider tax bill) which was signed by the Governor on February 16, 2011 (PA96-1530), the Department will be receiving a continuous funding source to support the costs of increased survey staff.

RECOMMENDATIONS 48-53
Illinois State Board of Education

09-48. The auditors recommend ISBE implement procedures to appropriately monitor and sanction LEAs not meeting the comparability of services requirement. (Repeated-2006)

Findings: ISBE does not take adequate measures to sanction a LEA that did not meet the comparability of services requirement under the Title I, Part A Cluster (Title I).

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. Based on information provided from a USDE audit and procedures performed during this external audit, auditors noted the following:

- ISBE did not sanction one LEA who did not properly calculate comparability ratios or determine the amount of federal funds that should have been returned as a result of the LEA not meeting the comparability requirement. Specifically, ISBE did not sanction the LEA for continuously having non-comparable schools or for including improper salary information in the calculations. During the initial comparability calculation, the LEA had 21 non-comparable schools. To make the schools comparable, the LEA allocated just enough funds (totaling $1.6 million) to each of the non-comparable schools to make them comparable. However, the LEA only expended $955,000 of that amount and 20 of the 21 schools remained non-comparable. Further, this LEA continues to improperly include longevity salary information in the calculation.

- ISBE did not follow its established process for one LEA and incorrectly lifted a sanction which froze the LEA's Title I funds. ISBE froze the LEA's funding when it submitted an improper comparability calculation but mistakenly lifted the freeze order before the LEA submitted the correct calculation.

In discussing these conditions with ISBE officials, they stated the non-comparability issue was first raised in the U.S. Department of Education (ED) 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 situation regarding the improper release of frozen funds was the result of an error in determining if other holds were placed on the funds before they were released.

Response: As has been previously stated, ISBE acknowledges that the LEA noted in the finding was not sanctioned when comparability requirements were not met. However, the Agency is still awaiting the final determination of corrective action from the U.S. Department of Education. In its July 1, 2009 Program Determination Letter on ISBE's FY 07 Single Audit findings, the ED Office of Elementary and Secondary Education stated: "As the auditors and ISBE noted, this and other related issues regarding LEAs' compliance with the comparability requirement and ISBE's monitoring of its LEAs' compliance with this requirement are being addressed by the Program Determination Letter (PDL) for the OIG's audit of Illinois (ED-OIG/A05G0033). Because the PDL for ED-OIG/ A05G0033 will be issued in the near future, we are not requiring ISBE to provide corrective actions regarding the comparability issues identified by the auditors in response to the above referenced audit findings. Rather, these matters will be handled through the resolution of the

OIG audit, and we consider these findings to be closed." Upon receipt, ISBE will take the corrective action contained in the Program Determination Letter. The Agency continues to work with the LEA cited in the USDE report to ensure their compliance with comparability requirements. For fiscal year 2010, the LEA has revised their process for determining comparability to exclude longevity pay, as required. In addition, this LEA's comparability report for 2010 did not show any noncomparable schools.

ISBE also acknowledges that an error occurred with the release of an LEA's Title I, Part A, program funds, when the funds were frozen. Since this occurred, ISBE has revised its procedures for freezing and releasing funds to ensure that all division requests for freezing funds are honored.

09-49. The auditors 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. (Repeated-2007)

Findings: ISBE is not adequately performing on-site fiscal monitoring reviews of subrecipients of the Title I, Part A Cluster, 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).

Auditors selected a sample of 30 subrecipients from each of the education programs and noted number of subrecipients were selected for an on-site fiscal and administrative review an actual review was not performed:

Additionally, in both the Special Education Cluster and the Twenty-First Century Community Learning Centers programs, one subrecipient included in the auditors' 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, 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.

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. In addition to scheduled monitoring events, External Assurance visits school districts at the request of management and others when issues are discovered; reducing the time available for scheduled visits.

Response: The Agency agrees that not all scheduled on-site fiscal monitoring visits included in the fiscal year 2009 monitoring plan occurred. ISBE is considering contracting out a portion of the monitoring schedule to CPA firms in order to accomplish scheduled monitoring visits.

The firms would perform agreed-upon procedures consisting of the monitoring steps currently performed by External Assurance.

With regard to the quality of data submitted by districts and used by ISBE in the calculation of adequately yearly progress, ISBE will not include steps for ensuring the accuracy of student data as part of the External Assurance monitoring tool. Rather, data quality, including the accuracy of district supplied data used in determining adequate yearly progress, will be analyzed by Data Stewards. The Data Stewards are working in conjunction with the development of a data warehouse and longitudinal data system and are responsible for working directly with school districts on data quality issues in order to ensure that data are accurate and timely.

09-50. The auditors 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. (Repeated-2007)

Findings: ISBE is not adequately performing on-site programmatic monitoring reviews of subrecipients of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs. 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.

Auditors selected a sample of 30 subrecipients for both Title I, Part A Cluster and Improving Teacher Quality State Grants and noted a number of subrecipients were selected for an on-site fiscal and administrative review, but an actual review was not performed.

Additionally, the USDE performed a review of ISBE's administration of the Program and identified several instances of noncompliance with program regulations at the subrecipient level.

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. In addition to scheduled monitoring events, External Assurance visits school districts at the request of management and others when issues are discovered; reducing the time available for scheduled visits.

Response: The Agency agrees that not all scheduled on-site programmatic monitoring visits included in the fiscal year 2009 monitoring plan occurred. ISBE is considering contracting out a portion of the monitoring schedule to CPA firms in order to accomplish scheduled monitoring visits. The firms would perform agreed-upon procedures consisting of the monitoring steps currently performed by External Assurance.

09-51. The auditors recommend ISBE 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.

Findings: ISBE 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 Title I, Part A Cluster, Special Education Cluster, and the State Fiscal Stabilization Fund (SFSF) Cluster programs

During testwork, auditors noted ISBE 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.

In discussing these conditions with ISBE officials, they stated the cash management issue was first raised in the U.S. Department of Education (ED) Office of the Inspector General Report on Systems of Internal Control Over Selected ARRA Funds in the State of Illinois issued February 23, 2010. This report states that ISBE did not have an adequate system for monitoring excess cash balances.

Response: The Agency agrees that procedures for ensuring appropriate cash management of Federal funds by subrecipients can be improved. ISBE has improved its procedures and is requiring that subrecipients provide quarterly expenditure reports 20 days after the end of the quarter. This will allow for a determination to be made as to whether the subrecipient has expended previously received Federal funds prior to the distribution of additional Federal funds.

09-52. The auditors recommend ISBE review the process and procedures in place to prepare the quarterly financial status reports and implement procedures necessary to ensure these reports are accurate.

Findings: ISBE did not accurately report federal expenditures in the quarterly financial status reports during the year ended June 30, 2009.

During testwork over the financial status report for the quarter ended December 31, 2008, auditors noted current period federal expenditures for the category "audit" and the resulting total expenditures were overstated by $1,315,084. In addition, auditors noted the current period federal expenditures for the category "audit" was understated by $570,027 in the financial status report for the quarter ended March 31, 2009.

In discussing these conditions with ISBE officials, they stated that the initial error resulted from a figure used on the December 31, 2008 financial status report (FSR) being entered to the wrong cell on the FSR spreadsheet. This error was carried forward to the March 31, 2009 FSR spreadsheet. Failure to accurately report expenditures in the financial status reports prevents the USDA from effectively monitoring the Child Nutrition Cluster and the Child and Adult Care Food Program.

Response: Implemented.

09-53. The auditors recommend ISBE establish procedures to ensure subrecipients register with the CCR database prior to making subawards.

Findings: ISBE did not communicate the requirement to register, or verify whether subrecipients were registered, with the Central Contractor Registration (CCR) database prior to making subawards for programs under the American Recovery Reinvestment Act (ARRA).

During a review of subrecipient awards, auditors noted ISBE did not communicate the requirement to register with the CCR database, including obtaining a Dun and Bradstreet Data Universal

Numbering Systems (DUNS) number. Additionally, ISBE did not perform a verification check with the CCR to ensure the subrecipients were properly registered prior to making subawards or disbursing funds.

In discussing these conditions with ISBE officials, they stated there was initially no guidance and then limited and conflicting guidance related to the need for subrecipients to register with CCR. Once it was confirmed that CCR registration was needed, ISBE communicated the need for subrecipients to register with CCR in numerous webinars, instructions on ISBE's website, the Superintendent's Weekly Message, and IWAS blasts (electronic announcement).

Response: Implemented.

RECOMMENDATIONS 54-56
Illinois Community College Board

09-54. The auditors 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. (Repeated-2008)

Findings: 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.

During testwork, auditors 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.

In discussing these conditions with ICCB officials, they stated the fiscal year 2008 finding for cash management procedures for subrecipients was not received in enough time to implement the changes for fiscal year 2009 but the changes have been implemented for fiscal year 2010.

Response: Implemented.

09-55. The auditors recommend ICCB establish procedures to require all subrecipients who receive findings during a programmatic on-site review to complete a corrective action plan. In addition, ICCB should implement procedures to verify corrective action has been taken by subrecipients in a timely manner.

Findings: ICCB did not follow up on programmatic on-site monitoring review findings for subrecipients receiving federal awards under the Career and Technical Education – Basic Grants to States (Perkins IV) program.

For 30 subrecipients selected for testwork, auditors noted thirteen programmatic on-site reviews performed during the year for which ICCB reported findings but did not obtain or require subrecipients to submit corrective action plans.

In discussing these matters with ICCB officials, they stated the regional consultants have extensive informal follow-up with their providers. However, a formal follow-up procedure is not developed.

Response: Implemented.

09-56. The auditors 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 subrecipient 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. (Repeated-2006)**

Findings: 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 reviews OMB Circular A-133 audit reports from subrecipients who expend $500,000 or more. 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 the reviews.

In discussing these conditions with ICCB officials, they stated they have a well documented A-133 checklist but will update it to include the additional items.

`Response: The Illinois Community College Board(ICCB) will update its checklist to verify audits were performed in accordance with OMB Circular A-133 and the funds expended reconcile to funding notifications. The ICCB will add a verification to its checklist that previous year findings were not repeated. The ICCB currently gathers a certification from providers who expend less than $500,000 in federal awards.

Recommendations 57-59
Illinois Student Assistance Commission

09-57. The auditors recommend ISAC establish procedures to ensure borrower payments from outside collection attorneys are received on a timely basis. (Repeated-2005)

Findings: ISAC does not deposit the federal share of borrower payments into the federal fund within the required 48 hours.

During testwork over 30 borrower payments, auditors noted 4 instances where borrower payments were not deposited into the federal fund within the required 48 hours. The delays were approximately 3 to 24 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, 2009, ISAC transferred approximately $7,838 from the operating fund to the federal fund as interest payments on untimely remittances.

In discussing these conditions with ISAC officials, they stated delays in receipt of borrower payments from outside legal collection agencies were the reason for non-compliance with the 48-hour rule.

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 interest on a monthly basis for those deposits that fall outside the 48-hour deposit period into the Federal Fund.

As of July 1, 2009, ISAC implemented a new process for one of its outside legal collection agencies. This agency is depositing the checks directly into ISAC's designated clearing account. This process change should result in fewer untimely deposits.

09-58. The auditors recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS. (Repeated-2008)

Findings: ISAC does not have an adequate process to verify unreported loans.

During testwork over the accuracy of the loan information included in the guaranty system, auditors selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender. For three loans, the lender indicated the loans were cancelled prior to disbursement in October 2003 and August 2007, respectively. Upon further review, the loan information had not been updated by the lenders since July 6, 2006, October 30, 2003 and August 3, 2007, respectively.

In discussing these conditions 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 lenders next monthly lender manifest submission.

Response: ISAC recognizes the importance of obtaining accurate and timely data from its lenders. The following business processes will continue to be in place to accept changes and updates to loan records:

- ISAC will continue to process monthly lender manifest submissions.
- ISAC will continue its "presumed paid" process which is a method to change the loan status to presumed paid for loans that have been in repayment status for twelve years and that have not been updated through any lender reporting in the past four years. This is an industry practice used with the approval of the Department of Education to help with the requirement of maintaining accurate records.
- ISAC will continue to create the semi-annual unreported loans report as the means for lenders to report changes and updates to loan records.
- ISAC will consistently initiate an unreported loans follow up process in May 2010 as described below.

Staff 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-message 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.

09-59. The auditors recommend ISAC review its process to ensure that lender agreements are executed fully and the lender agreements specify the loan programs for which the agreement is being executed. Further, ISAC should have a process in place to periodically review lender agreements in order to ensure they are complete and enforceable.

Findings: ISAC does not have a process to ensure lender agreements are complete and enforceable. During an internal review of twenty lender agreements, ISAC identified 3 lender agreements that did not specify the loan programs ISAC authorized and guaranteed. In addition, ISAC noted 1 lender agreement wherein the lender's authorization signature was not dated on the lender agreement. However, no follow up was performed by ISAC to review the remaining population of lender agreements to ensure they were complete and enforceable.

In discussing these conditions with ISAC officials, they stated they disagree with this finding regarding incomplete lender agreements.

Response: ISAC has a process in place to ensure lender agreements are complete and enforceable at the time of execution. The Compliance area has been responsible for this activity since 2003 and uses an Agreement Check List to ensure that all agreements are properly executed.

Furthermore, an additional procedure has been in place since the 1980's in order to correctly update the lender database in the guaranty system regarding the programs in which the lender wanted to participate. The procedure calls for a lender data sheet to accompany the Lender Agreement. The lender data sheet contains specific contact information along with a notation of the programs for which the lender is/was to participate. When the Lender Agreement and data sheet arrived at ISAC, the data sheet would be forwarded to the data management department for the loading of the lender information in the lender database. If there was any question as to which programs were to be loaded to the system, staff would follow up with the lender, usually via phone call, to determine in what programs they were agreeing to participate. The correct loan types would then be updated in the lender database.

Although the above procedures have been in place and as of July 1, 2010, ISAC will not be executing any new lender participation agreements due to the fact that recent passage of the Health Care and Education Reconciliation Act of 2010 will eliminate the Federal Family Education Loan Program (FFEL) with no new disbursements after that date, ISAC will conduct a reconciliation of Lender Agreements. The review will ensure the agreements for lenders who will be exercising their guarantees in the future are complete.

Auditors' Comment: *As discussed above, three out of 20 lender agreements tested during an internal review did not specify the loan programs ISAC authorized or guaranteed. After identification of this issue of incomplete lender agreements, ISAC failed to follow up on the remaining population of lender agreements to ensure they were complete and enforceable.*

RECOMMENDATIONS 60-69
Department of Employment Security

09-60. The auditors 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. (Repeated-2008)

Findings: 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.

According to IDES 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; 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 basis whether claimants have refused suitable work offers during the period for which benefits are received.

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 twelve years ago due to a perceived confusion from the claimants in answering the question.

Updated Response: Implemented. The refusal of work question will be added to the TeleServe Interactive Voice Response (IVR) System and the Internet claims bi-weekly certification when Release 4 of IBIS is implemented. The system will record the claimant's response to the question.

09-61. The auditors recommend IDES implement procedures to ensure all eligibility determinations are made within the prescribed timeframes. (Repeated-2008)

Findings: IDES is not issuing eligibility determinations for individuals applying for Unemployment Insurance (UI) benefits in accordance with timeframes required by the State Plan.

During test work auditors conducted unannounced site visits to three local offices and requested the most recent pending adjudication report as of the date of the visit and noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, a total of 512 claims at the three local offices were outstanding for time periods ranging from 22 to 133 days.

Additionally, during a review of the FY10 State Quality Service Plan submitted by IDES to the USDOL, 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 FY09, resolving only 55.8% of these determinations within 21 days of the detection date. USDOL requires 80%.

In discussing these conditions with IDES officials, they stated the significant increase in the volume of claims and the under-funding of the UI program in recent years have worsened the situation.

Updated Response: We agree. The implementation of IBIS, along with enhanced training for Employment Security Service Representatives (ESSRs) have helped these numbers improve significantly since the time of this recommendation. The Agency has increased individual productivity monitoring and continues to address performance issues. Additionally, further timeliness guidelines have been established based on best practice reviews and the most recent Benefit Timeliness & Quality (BTQ) results. The Agency has seen a significant increase in determination timeliness since the date of this finding and expects that it will continue to improve.

09-62. The auditors recommend IDES implement additional procedures to ensure the automated stop is generated for all invalid social security numbers to prevent payment of benefit to ineligible claimants, and to ensure all requests are returned from the SSA.

Findings: IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) Program.

During test work over the eligibility of UI benefit payments, auditors selected a sample of 60 claimants from a listing of invalid social security numbers and noted four did not have the automatic stop applied and as such, were not properly investigated by IDES. Total benefits paid to the four claimants were $25,599 during the year ended June 30, 2009. During the year ended June 30, 2009, a total of 2,046 out of 849,406 social security numbers were reported as potentially invalid by the Social Security Administration for which benefits paid to 143 claimants were approximately $717,000.

In discussing these conditions with IDES officials, they stated two numbers were submitted to the SSA but were not returned on the file and as such, had not been uploaded into BIS. The other two invalid social security numbers were claims which were in the process of being transferred between local offices, and a system edit prevented the issue from posting due to the change in local office.

Updated Response: We agree. IDES intends to have an online verification process with the Social Security Administration in place as part of the implementation of IBIS. This should ensure responses are received for each new claim filed. This should be in place by September 30, 2011.

09-63. The auditors recommend IDES reinforce procedures to ensure all eligibility determination documentation is complete and properly maintained. (Repeated-2006)

Findings: IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance Program.

During test work of the UI program, auditors selected 100 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In three cases, the UI application could not be located. In each case, auditors were able to verify each of the eligibility criteria through information in the electronic files.

- In eighteen cases, the claimant was not registered on the Illinois Skills Match system. In each of these cases, auditors were able to determine the individuals were actively seeking employment through the weekly certifications made to IDES.

In discussing these conditions with IDES, they stated the two applications not located may have been misfiled or mislabeled when they were microfilmed. The third instance was a transitional claim and the original application was purged in accordance with the Department's record retention policy. Claimants are advised to register in the Skills Match System, but do not always do so.

Updated Response: Implemented. Since the implementation of IBIS on 8/30/10, all claimants that require registration with Illinois Skills Match are automatically partially registered at the time of claim filing.

09-64. The auditors recommend IDES review its procedures for monitoring its third party servicers and implement any changes necessary to ensure significant internal controls at the service organizations are operating effectively.

Findings: IDES does not adequately monitor a service organization of the Unemployment Insurance (UI) Program. In September 2008, IDES began utilizing debit cards to pay UI benefits. IDES has contracted with a third party service provider (financial institution) to administer the debit card processing of UI benefits.

Auditors noted IDES does not require its service provider to obtain an independent examination of the operating effectiveness of internal controls during the year (commonly referred to as a Type II SAS 70 report). As a result, IDES is not able to adequately monitor its third party service provider to determine whether internal controls that are essential to compliance with federal requirements of the UI program are operating effectively.

In discussing these conditions with IDES officials, they stated they received a Type I SAS 70 report which provided a description of the internal controls and reasonable assurance that the controls were properly designed.

Updated Response: Accepted. We have implemented a procedure to formalize our review of third party service provider controls and have included a Type II SAS 70 review as a requirement in the new bank contract.

09-65. The auditors recommend IDES 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 facilitate completion of the audit. IDES should also automate 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. (Repeated-2005)

Findings: The IDES 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. These reports include the following:

- SSN Verification From SSA
- Sensitive Changes Report
- Immigration Record Check For Unemployment
- Combined Application Error Report
- File Maintenance Error Report and Rejected Transaction Report
- Media Transfer Report
- Daily Rejected Report
- All Transactions Report
- Claims Application Error Report
- Internet Claims Deletion Report
- First Certification Report
- Certification Summary Report
- Pending Adjudication Report

During test work auditors 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 retains claim exception and monitoring reports (except for the sensitive changes report) for a period of three months after the end of the quarter.

Auditors 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, auditors reviewed exceptions to determine whether they had been properly resolved and noted that resolution of exceptions and supervisory review was not consistently documented.

In discussing these conditions with IDES officials, they stated not all reports and/or items on reports require resolution and supervisory review; therefore, formal procedures have not been established for all reports.

Response: We agree. We have created an action plan to ensure the local offices are following appropriate policies and procedures. IDES has created an internal review program that will require a review of each document by the local office manager, who in turn will document the status on a weekly report that goes to the region. The region will then be responsible for a random monthly audit that ensures the reports are accurate and following the correct policy and procedure for handling. The action plan includes a “refresher” report training class for field office supervisory staff demonstrating the appropriate way to document the reports for resolution and proper handling.

Updated Response: Accepted and partially implemented. We have automated the reports. Most of the errors that occurred in IBIS have been eliminated with the new benefit system (IBIS) or become workflow items that are automatically tracked in the system for follow up.

09-66. The auditors recommend IDES implement procedures to ensure the ATAA benefit payments are properly calculated and paid on at least a monthly basis. (Repeated-2008)

Findings: 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. The TRA grant provided 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. 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 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 $575,971 for the year ended June 30, 2009.

During test work of the ATAA program, auditors selected 10 weekly beneficiary payments (totaling $1,511) to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In two cases (with sampled weekly payments of $208), the ATAA weekly benefit amount was not accurate due to changes in pay rates. As a result, one beneficiary was underpaid by $1,416 and one beneficiary was overpaid by $549.

- In one case (with a sampled weekly payment of $165), the individual returned to work to the employment from which the worker was separated and was improperly paid benefits totaling $8,875 during the year ended June 30, 2009.

- In two cases (with sampled weekly payments of $457), the individuals were not paid at least monthly. Payments made to these individuals were for periods ranging from two to five months.

In discussing these conditions with IDES officials, they stated benefit payments were manually calculated without the use of a spreadsheet.

Updated Response: Implemented. IDES has trained two additional staff to process ATAA payments. In addition, the program was transferred to Springfield in January 2009, under the direction of the Special Programs Manager. Payments are now calculated on a spreadsheet. Formulas to ensure accurate calculations were incorporated into the spreadsheet.

09-67. The auditors 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. (Repeated-2007)

Findings: IDES did not accurately report expenditures in the Alternative Trade Adjustment Activities (ATAA) Special Report.

During a review of the four quarterly reports submitted for the fiscal year ended June 30, 2009, IDES did not reconcile the total expenditures reported for the ATAA to the general ledger for the September 30, 2008 quarterly ATAA Special Report. As such, the amount reported to the USDOL was understated by $16,571. Also, the ATAA special report for the quarter ended September 30, 2008 was prepared and submitted by the same individual and was not sufficiently reviewed by a supervisor prior to submission.

In discussing these conditions with IDES officials, they stated as a result of this repeat finding, the responsibility for payment processing and reporting was reassigned and procedures changed, but the first quarter report had already been submitted.

Updated Response: Implemented. Quarterly reconciliations have been prepared since the 4th quarter of calendar year 2008. Procedures are in place to ensure a reconciliation of expenditures to the General Ledger is completed. The State UI Program Manager signs off on the Reconciliation prior to submission of the report data.

09-68. The auditors recommend IDES implement procedures to ensure the information technology systems are properly configured to offset overpayments in accordance with the federal regulations.

Findings: IDES has not configured its information technology systems to properly offset overpayments related to the Federal Additional Compensation (FAC) and the Emergency Unemployment Compensation (EUC08) programs, which were established by the American Recovery and Reinvestment Act and administered as a part of the Unemployment Insurance (UI) Program.

Based on a review performed by the U.S. Department of Labor, auditors noted the following:

- IDES had not properly configured its information technology system to offset the FAC overpayments with FAC benefits. IDES' information technology system was configured to offset the FAC overpayments against the EUC08 benefit payments and other federally funded benefits, which resulted in slower collections of FAC overpayments. Total FAC payments made during FY09 were $172,530,475, of which $1,481,000 or 0.9% consisted of overpayments.

- IDES had not properly configured its information technology system to offset EUC08 fraud overpayments to a maximum of 50% against the weekly benefit amount. The system is currently programmed to offset EUC08 fraud overpayments with 100% of the EUC08 weekly benefit amount. Total EUC08 benefits paid during the fiscal year ended June 30, 2009 were $1,204,960,432, of which $379,774 or 0.03%, consisted of overpayments related to fraud.

In discussing these conditions with IDES officials, they stated they were following past practices on previous federal extension programs by following State law which provides for a higher recoupment rate for fraud overpayments. Concerning the failure to offset a FAC overpayment with a FAC payment, it was assigned a lower priority compared to other requirements of the American Recovery and Reinvestment Act that significantly expanded the Unemployment Insurance

Program. In addition, resources have mainly been diverted to performing tasks related to the implementation of the new benefit system (IBIS).

Updated Response: Implemented. Changes to ensure that fraudulent EUC overpayments are only recouped at 50% instead of 100% were implemented in May 2010. The ability to offset a FAC overpayment with a FAC payment was implemented in August 2010.

09-69. The auditors recommend IDES establish procedures to perform out-of-state wage verifications at the beginning of the initial EUC08 and extended benefit periods, and at the end of each quarter to determine if UI eligibility could be established in another state.

Findings: IDES did not perform all required out-of-state wages verification procedures for Emergency Unemployment Compensation (EUC08) beneficiaries.

Based on a review performed by the U.S. Department of Labor and discussion with management, auditors noted IDES does not examine out-of-state wages at the beginning of the initial EUC08 and initial extended benefit claim or at the end of each quarter to determine if UI eligibility could be established in another state. IDES procedures for verifying whether a claimant has exhausted all rights to regular benefits only include examining out-of-state wages each time a claimant establishes a new benefit year.

In discussing these conditions with IDES officials, they stated there is no efficient process to check out state wages on a quarterly basis. Using the Interstate Benefits Inquiry Database (IBIQ) system would be completely manual for every claim filed and is limited to checking five states at a time to determine if wages are reported in those five states.

Auditors' Comment: *We recommend IDES work with the USDOL to identify appropriate sources to perform the required out of state wage verifications.*

Updated Response: Under Study. USDOL has recently provided an option and we are exploring it.

RECOMMENDATIONS 70-72
Department of Commerce and Economic Opportunity

09-70. The auditors recommend DCEO implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

Findings: DCEO did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Workforce Investment Act (WIA) Cluster program.

During testwork over disbursements to subrecipients of the WIA Cluster program, auditors noted DCEO did not identify the federal award number, catalog of federal domestic assistance (CFDA) number, or the amount attributable to ARRA at the time of each disbursement. Additionally, DCEO's grant agreements did not identify the requirement for subrecipients to separately report ARRA program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form.

In discussing these conditions with DCEO officials, they stated they assumed that they were in compliance with the ARRA requirements based on the general provisions relating to federal awards and ARRA contained in their existing grant agreement for subrecipients.

Response: The Department agrees with the recommendation and will ensure ARRA information and requirements are properly communicated to ARRA subrecipients. The Department has revised the audit provisions in the grant agreement to include the specific requirement for subrecipients to separately report ARRA expenditures on their SEFA and data collection forms. The Department will also include the required ARRA information on disbursements to the subrecipients.

09-71. The auditors 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. (Repeated-2007)

Findings: DCEO did not accurately report financial information in the Performance and Evaluation Report for the Community Development Block Grant (CDBG) Program.

During testwork of the Performance and Evaluation Report for the year ended December 31, 2008, auditors noted amounts included in the report did not agree (reconcile) to the general ledger and supporting schedules.

In discussing these conditions with DCEO officials, they stated the errors in the 2008 Performance and Evaluation Report resulted from an inadvertent misclassification of local administrative costs allocated to the low to moderate income objective.

Response: Implemented.

09-72. The auditors recommend DCEO communicate findings and management recommendations for on-site reviews on a timely basis. (Repeated-2008)

Findings: DCEO did not communicate the on-site review findings on a timely basis for the Workforce Investment Act Cluster (WIA) program.

During testwork of fourteen subrecipients of the WIA program with total expenditures of $80,279,000, auditors noted:

- The findings and management recommendations for eleven fiscal on-site monitoring reviews were not communicated to the subrecipients as of the date of testwork.
- The findings and management recommendations for one programmatic on-site monitoring review was not communicated to the subrecipients in a timely manner. The number of days elapsed between the exit conference and the communication of the findings was 94 days.

In discussing these conditions with DCEO officials, they stated the one programmatic monitoring communication was sent out four days late as a result of workload issues from an unexpected vacancy and additional monitoring for the new American Recovery and Reinvestment Act grants. The late communications for fiscal monitoring were a result of four vacancies and staff resources that were allocated to assist the reorganization of a local Workforce Investment Act area.

Response: Implemented.

RECOMMENDATIONS 73-81
Department of Transportation

09-73. The auditors 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. (Repeated-2005)

Findings: IDOT is not performing on-site reviews and has not developed formal policies and procedures for on-site reviews for locally-let projects awarded to subrecipients receiving federal awards under the Airport Improvement Program.

IDOT passed through approximately $30,156,000 to 34 subrecipients of the Airport Improvement Program during the year ended June 30, 2009. In a prior year report, it was reported that IDOT was not performing any on-site reviews. During the current year, IDOT implemented procedures to perform on-site reviews of subrecipients in which IDOT is responsible for performing the procurement of the underlying goods and services. However, IDOT did not perform any on-site reviews of subrecipients for locally-let subawards. IDOT management stated that they plan to perform on-site reviews for these subawards beginning in FY10.

In discussing these conditions, IDOT officials stated they monitored subrecipients by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and reviewing OMB Circular A-133 audit reports. Based on the prior finding, they have also implemented on-site monitoring procedures beginning in fiscal year 2009 for subawards in which IDOT is responsible for procurement and will implement on-site monitoring procedures beginning in fiscal year 2010 for locally-let subawards.

Updated Response: Recommendation Accepted.

The Division of Aeronautics is currently working on editing our existing Local-Let Administrative Bulletin to include on-site monitoring procedures. While all IDOT-let projects have a formal policy and procedure for project monitoring, a written policy was not in place for locally let projects prior to June 30, 2009. This has since been rectified. It must be noted that although a policy was not strictly in place and there is no requirement for same, on-site monitoring did occur for nearly every locally-let project.

09-74. The auditors recommend IDOT establish procedures to accurately report Federal expenditures to the IOC.

Findings: IDOT did not accurately report federal expenditures under the Airport Improvement Program, the Highway Planning and Construction Cluster, the Homeland Security Cluster, and the Disaster Grants – Public Assistance programs.

Auditors noted IDOT inaccurately reported federal expenditures to the Illinois Office of the Comptroller (IOC) using an estimate based on revenues and receipts, instead of actual expenditures. Additionally, expenditures for the Airport Improvement Program were incorrectly identified as being funded by the American Reinvestment Recovery Act.

Specifically, the following differences were noted for the year ended June 30, 2009:

Program	Original Federal Expenditures Reported	Actual Federal Expenditures	Difference
Airport Improvement Program	89,164,000	82,973,000	6,191,000
Highway Planning and Construction Cluster	1,355,546,000	1,248,995,000	106,551,000
Homeland Security Cluster	3,249,000	814,000	2,435,000
Public Assistance	-	2,435,000	(2,435,000)

Adjustments were subsequently made after these differences were identified during the audit to accurately report federal expenditures in the schedule of expenditures of federal awards (SEFA).

In discussing this with IDOT officials, they stated due to the unexpected loss of key personnel during the GAAP and SEFA reporting process, a different methodology was used to report federal expenditures in the GAAP packages for these programs. The inaccuracies in the SEFA reporting were due mainly to lack of experience with this process. The process has since been revised and will provide supporting documentation to accurately report federal expenditures.

Response: The Department agrees with the finding. After completion of the fieldwork, department staff identified additional reporting processes in order to provide the necessary documentation to support federal expenditure reporting. In addition, cross training of personnel is being implemented in the Fiscal Operations Unit in order to insure complete and accurate reporting of federal expenditures in the future. All revised processes are being documented and the appropriate accounting procedure manuals will be updated as required.

Updated Response: Recommendation Accepted.

The Department continues to improve the financial reporting process. Cross-training of financial staff is being implemented to ensure timely and accurate reporting. Procedures are being updated as the processes are revised.

09-75. The auditors recommend IDOT establish procedures to ensure the provisions requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations are included in all executed contracts.

Findings: IDOT did not include provisions in the construction contracts requiring the contractors and subcontractors to comply with the Davis-Bacon Act (prevailing wage) and Department of Labor Regulations for the Highway Planning and Construction program.

IDOT's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and obtaining weekly certified payroll reports from contractors. However, IDOT did not include in all of their contracts a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and related DOL regulations. Specifically, 20 of 40 contracts selected for test

work did not contain the Davis Bacon Act requirements. IDOT paid approximately $1.098 million for construction contracts subject to the Davis-Bacon Act during the year ended June 30, 2009.

In discussing these conditions with IDOT officials, they stated that the "Required Contract Provisions Federal-Aid Construction Contracts" document was being removed from Federal-Aid contracts due to a misguided directive.

Updated Response: Recommendation Implemented.

During FY10 the Department began including in all federally funded contracts the FHWA 1273 "Required Contract Provisions - Federal-aid Construction Contracts" along with the applicable prevailing wage rates for the project location.

09-76. The auditors recommend IDOT implement procedures to ensure amounts reported by subrecipients in the schedule of expenditures of federal awards are reconciled to departmental records. (Repeated-2002)

Findings: IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports.

IDOT passed through approximately $30,156,000, $113,227,000, and $32,500 to subrecipients of the Airport Improvement, Highway Planning and Construction Cluster, and Homeland Security Cluster programs, respectively, during the year ended June 30, 2009.

During testwork, auditors noted the checklist used by IDOT to perform A-133 desk reviews does not include procedures to reconcile federal funds spent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient. As a result, IDOT is not able to determine whether federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits.

In discussing these conditions with IDOT officials, they stated the Department is revising procedures to reconcile federal funds passed through by IDOT to the schedule of expenditures of federal awards reported by the subrecipients; however, the procedures were not fully implemented in the audit period.

Updated Response: Recommendation Implemented.

Reconciliation of the payments reported by subrecipients is being completed as part of the single audit review process. This was implemented during FY11.

09-77. The auditors recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients. (Repeated-2004)

Findings: IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement Program and Highway Planning and Construction programs.

During testwork of thirty grant awards to 18 subrecipients who received approximately $32,315,000 in Highway Planning and Construction program funds and thirty grant awards to 18 subrecipients who received approximately $21,580,000 of the Airport Improvement Program funds, auditors noted the following:

- Twenty grant award notices for the Airport Improvement Program did not communicate the specific program or CFDA number under which federal funding had been provided.

- Twenty-eight grant award notices for the Highway Planning and Construction did not communicate the specific program or CFDA number under which federal funding had been provided.

- Nineteen grant award notices for the Airport Improvement Program did not communicate program regulations or the need for an audit in accordance with OMB Circular A-133.

- Twenty-one grant award notices for the Highway Planning and Construction did not communicate program regulations or the need for an audit in accordance with OMB Circular A-133.

In discussing these conditions with IDOT officials, they stated the projects identified were initiated before the prior year corrective action that revised the agreements had been fully implemented.

Updated Response: Recommendation Implemented.

All local agency funding agreements currently contain the required provisions notifying subrecipients of federal funding, including the identification of CFDA numbers and A-133 single audit requirements.

09-78. The auditors 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 programs. (Repeated-2008)

Findings: 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 Cluster program.

During a review of 30 grant agreement notifications to subrecipients of the Highway Planning and Construction Cluster program, auditors 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. IDOT passed through approximately $113,227,000 to approximately 310 subrecipients of the Highway Planning and Construction Program.

In discussing these conditions with IDOT officials, they stated one division was using an outdated grant agreement that did not include the suspension and debarment certifications.

Response: The Department agrees with the finding. Since the audit, the Department has added suspension and debarment clauses and certifications to the Rail Safety agreement template. The agreement cited was initiated prior to this change.

Updated Response: Recommendation Under Study.

Upon further review it has been determined that when the Department requests a railroad to make improvements to their property in which they have a prior land right we are obligated to pay for the improvement. These types of force account agreements are not considered "procurements" because the railroad has the right to perform the work with their own forces on their own property for work that benefits the Department. These agreements fall outside the Illinois Procurement Code and 49 CFR 18.35.

09-79. The auditors recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the Federal Highway Administration.

Findings: 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.

IDOT has developed a comprehensive sampling and testing program as documented in the Project Procedures Guide for Sampling Frequencies for Materials Testing and Inspection (the Guide) and the Manual for Materials Inspection that meets federal requirements.

During testwork, auditors selected120 materials from ongoing (open) construction projects and noted three instances where materials were accepted using a method of acceptance that was not in accordance with the Manual.

In discussing these conditions with IDOT officials, they stated two of the three exceptions indentified occurred prior to the publishing of a major update to the Manual for Materials Inspection in the spring of 2009. Field inspectors might not have had current information about the correct method of acceptance. The final item exception, a completed sign panel, appears to have been caused by a misunderstanding as to how the component materials need to be inspected prior to the final product being manufactured.

Updated Response: Recommendation Implemented.

The Department updated the Manual for Materials Inspection (March and June) and the Project Procedures Guide (June) in 2009. We also discussed the specifics of this finding at the annual Physical Tests meeting in 2009. In addition, to maintain the trend of improvement, we updated the Manual for Materials Inspection in March 2011 and are working to update the Project Procedures Guide this spring as well.

09-80. The auditors recommend IDOT account for and remit interest earned on the Homeland Security program funds to the U.S. Treasury. (Repeated-2006)

Findings: IDOT did not account for and remit interest earned on advance funding received under the Homeland Security Program.

In discussing these conditions with IDOT personnel, they stated that during the audit period, the corrective action which created a separate appropriation to reimburse Homeland Security expenditures to vendors prior to drawing down any federal funds had not been fully implemented. In order to minimize and marginalize any material interest issues, it had been the practice during the audit period to process payments to vendors in conjunction with any draw down of federal Homeland Security funds.

Updated Response: Recommendation Implemented.

Expenditures are now being made prior to drawing funds, therefore there is not a need to calculate and remit interest.

09-81. The auditors recommend IDOT implement procedures to ensure all information systems are adequately secured. (Repeated-2005)

Findings: 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.

During testwork over the access, program change and development, and computer operations controls of the systems, auditors selected 25 employees hired during the fiscal year ended June 30, 2009 and noted seven had not completed the security awareness program training. Also, four of 25 terminated users still had active Resource Access Control Facility Identification (RACF IDs).

During testwork over access to specific applications, auditors 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.

- Six 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, for more than 24 months.

- Eight 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, for more than 24 months.

In discussing these conditions with IDOT officials, they stated during scheduled system access reviews with business users, the Department did not specifically address individuals that had not accessed a RACF system for an extended period of time. The Security Awareness program has a process in place to address individuals who do not complete the training in a reasonable amount of time. Those users that do not complete the Security Awareness program are reviewed and the individual's manager is notified to assist in obtaining completion of the program by the individual.

Response: The Department agrees with the finding.

The Department continues to review, analyze and improve IT processes and controls. The Department has improved processes related to RACF IDs during FY10 through improved system access reviews with business users, improved communication with Personnel relating to terminated employees, and an annual review of users that have not utilized their RACF ID within the prior 365 days. The Department has noted that after 30 days the passwords are revoked and users would not have access to these systems. Further, access to the mainframe systems can only occur from an IDOT computer connected to the network providing an extra layer of security. The Department continues to work with other Bureaus to improve communication from business areas when individuals change roles within their Bureaus that may require changes to their system access levels.

RECOMMENDATIONS 82-88
Illinois Emergency Management Agency

09-82. The auditors recommend IEMA establish procedures to properly identify and report expenditures under the Homeland Security Cluster to the Comptroller.

Findings: IEMA does not have an adequate financial reporting process to identify programs reported under the Homeland Security Cluster program. Specifically, expenditures of approximately $49 million were reported on the schedule of expenditures of federal awards (SEFA) using an incorrect CFDA number, and adjustments were required to accurately state the Homeland Security Cluster expenditures in the SEFA.

In discussing these conditions with IEMA personnel, they stated that the original GAAP package listed the correct CFDA numbers. However, an external vendor hired to assist in the preparation of the GAAP packages changed the CFDA numbers and resubmitted them to the IOC in a subsequent revision without the knowledge of IEMA.

Response: Accepted. The correct catalog of federal domestic assistance (CFDA) numbers were provided by IEMA for the GAAP packages. However, the vendor hired by the Public Safety Shared Services Center (SS) to complete IEMA's GAAP package made changes to the CFDA numbers after the first round of comments from the Illinois Office of the Comptroller without consultation or notification to IEMA. A document sent to IEMA from the vendor in December and returned with corrections, shows IEMA's attempt to inform the vendor that the CFDA numbers in one of their worksheets were incorrect. There was no mention of the changes to the GAAP packages in reference to these numbers until IEMA received draft findings from the single audit.

IEMA will research the processes employed by Shared Services and work to ensure this situation does not occur in the future.

Updated Response: Implemented.

09-83. The auditors recommend IEMA deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury. (Repeated-2008)

Findings: IEMA received approximately $67,385,000 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.

In discussing these conditions with IEMA personnel, they stated federal funds are currently not being deposited into an interest-bearing account. IEMA understands that federal funds drawn for non-immediate spending can be placed in an interest-bearing account for up to 120 days, as long as all interest proceeds are returned to the federal government. IEMA will pursue legislation to create an interest-bearing account.

Response: IEMA accepts this finding. The Agency will pursue the legislation needed to create interest-bearing accounts. However, monitoring over 30 grant accounts on a daily basis in order to track the amount of interest owed may require an additional full time headcount. This employee would track all federally drawn funds from each program account, track the number of days from receipt to expenditure and complete payment forms for voucher processing at the Public Safety Shared Services Center for the accumulation of interest payment back to the Federal Government. IEMA will also pursue an additional headcount; however, we estimate the cost to hire an individual to be more than five times the amount of interest that would be returned to the federal government.

09-84. The auditors recommend IEMA establish procedures to either ensure vendors certify that their organization is not suspended or debarred or otherwise excluded from participation in federal assistance programs, or perform verification procedures with the EPLS (Excluded Parties List System). (Repeated-2008)

Findings: 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 a review of 30 expenditures to 4 vendors of the Homeland Security Grant program, auditors 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, 2009, IEMA expended approximately $538,000 to vendors of the Homeland Security Grant program.

In discussing these conditions with IEMA personnel, they stated that when the auditors originally notified IEMA of this finding, the Agency's legal opinion was that appropriate debarment language already existed; however, they agreed to add additional language to all contracts. This language was added after notification by the auditors, which was not until after the beginning of the 2009 audit period.

Response: While the Agency believes appropriate debarment language existed prior to the Agency's audit for the period ending June 30, 2008, the Agency agreed to add additional language to all contracts to address the auditors' concerns. However, this language was not able to be added until the Agency was notified, which did not occur until after the beginning of this audit period.

Auditors' Comment: The language which was included in the vendor contracts prior to the modification made by IEMA did not refer to the federal suspension and debarment requirements.

Updated Response: Implemented.

09-85. The auditors recommend IEMA perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations. (Repeated-2008)

Findings: IEMA is not sufficiently performing on-site reviews of subrecipients receiving federal awards under the Homeland Security Cluster.

Effective March 19, 2008, IEMA developed a formal policy for performing on-site monitoring procedures at its subrecipients, and a monitoring template to document the on-site visits was developed during March 2009. Noted during the audit, IEMA did not perform on-site subrecipient monitoring procedures from July 1, 2008 through May 31, 2009. IEMA performed two on-site subrecipient monitoring visits in June 2009; however, those reviews were not fully documented.

In discussing these conditions with IEMA personnel, they stated two on-site monitoring visits were conducted during the audit period and a more aggressive monitoring plan is being developed for state fiscal year 2010.

Response: IEMA agrees with the finding.

Although IEMA has established a comprehensive sub-recipient monitoring policy, which provides a mechanism to ensure grantee compliance with federal and state rules and requirements through multiple evaluation criteria, we agree that a limited number of on-site visits were made in State Fiscal Year (SFY) 2009. This policy was lauded by the U.S. Department of Homeland Security, Office of Inspector General as a thorough procedure to ensure programmatic compliance with federal and state policies and strategy. In SFY 2010, prior to the issuance on this finding, IEMA had already established an aggressive on-site monitoring schedule of grantees of federal preparedness funds that clearly exceeds the minimum requirements of OMB Circular A-133.

It should be noted that unlike other state grant programs, IEMA only provides funds to sub-recipients on a reimbursement basis. This means the sub-recipient must have already incurred the expense and submitted proper documentation (complete vendor invoice) to IEMA, which is immediately audited for adherence to federal and state rules and regulations that govern the grant program before any funds are drawn from the U.S. Treasury and payment issued. In our opinion,

much of what would be accomplished in an on-site monitoring visit, with the exception of conducting a physical inventory, has already been completed prior to funds ever being requested from the federal government. This process, which has been in place well before SFY 2009, ensures all costs are completely documented and accounted for before the issuance of funds to the grantee.

Additionally, we believe that annual A-133 Single Audits, conducted by subject matter experts, provide a much more comprehensive and thorough review of financial documents than could be accomplished by IEMA staff. IEMA continues to closely monitor sub-grantee compliance with A-133 Single Audit requirements, which is a much more comprehensive process to ensure adherence to pertinent financial and grants management rules and regulations. To oversee this monitoring function, IEMA employs a compliance officer whose responsibility is to track the submission of jurisdictional audits, ensure appropriate federal funds are included in the audit, and follow up to resolve identified findings. All A-133 Single Audits are reviewed by IEMA in an appropriate period and follow-up letters are immediately sent to the jurisdiction.

IEMA continues to refine internal policies and procedures to strengthen our ability to ensure grantee compliance with federal and state rules and requirements. Since SFY 2009, IEMA has established several stringent procurement documentation policies directly associated with sub-recipient monitoring of organizations that receive federal preparedness funds. Additionally, IEMA has initiated the development of a web-based grants management system that will enable the agency to electronically capture the on-going project monitoring of sub-grantees that takes place on a regular basis.

09-86. The auditors recommend IEMA review the process and procedures in place to prepare the FEMA financial status report (Form 20-10) to ensure expenditures are accurately reported.

Findings: IEMA did not accurately report expenditures in the Federal Emergency Management Agency (FEMA) financial status report (FEMA Form 20-10).

The FEMA Form 20-10 report is required to be submitted on a quarterly basis to report expenditure information related to the disaster public assistance grants. During the review of 12 out of 40 quarterly FEMA Form 20-10 reports submitted during the fiscal year ended June 30, 2009, auditors noted IEMA incorrectly reported the amount of the recipient share of outlays in one report as follows:

Quarter Ended		Reported Expenditures	Actual Expenditures	Variance
March 31, 2009	$	11,605,206	8,220,182	3,385,024

In discussing these conditions with IEMA personnel, they stated that FEMA changed the Federal/Non-Federal cost share percentages for only one of the twenty-six open disasters. This change was in effect from June 24, 2008 thru August 6, 2008 or forty-four days. The cost share change for this disaster resulted in the submission of an inaccurate quarterly report which has been corrected.

Response: IEMA accepts this finding.

It appears this finding was caused by an unusual change in the Federal/non-Federal cost share percentages under the FEMA-1771-DR-IL declaration. During this declaration, FEMA authorized a 90/10 Federal/non-Federal cost share spilt for a limited period for eligible Public Assistance Program projects under Category B, Emergency Protective Measures. This 90/10 cost share was just in force from the start of the incident until August 6, 2008. Any Category B project worksheets prepared for work performed during this period had this 90/10 cost share.

The typical cost share for declarations under the Public Assistance Program is 75/25. The only other declaration where we've had a 90/10 cost share was the FEMA-0997-DR-IL, 1993 Great Midwest Flood, and 90/10 was the cost share for the entire period of the disaster.

There are no known instances where a 90/10 cost share has been authorized for a short range of time within a disaster. This anomaly caused the non-Federal share number entered for the 1771 quarterly financial reports to be inaccurate. After we received notice of this discrepancy, program staff and fiscal worked together to identify payments within this time frame and submitted the corrected numbers listed above in this finding and resubmitted adjusted quarterly reports. Staff from disaster programs and fiscal will work together to insure this is not overlooked in the future.

Additionally, the Grants Management System (GMS) currently under development should enable program and fiscal staff to share necessary information and avoid these discrepancies.

Updated Response: Implemented.

09-87. The auditors recommend IEMA implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations.

Findings: IEMA did not minimize the time elapsing between the drawdown of federal funds from the U.S. Treasury and their disbursement for program purposes.

Noted during the review of 30 expenditures (totaling $12,602,386) related to the Disaster Grants Public Assistance (Presidentially Declared Disasters) program, warrants were not issued for 23 expenditure vouchers, totaling $7,148,159 within three business days of receiving federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants ranged from four to fourteen business days.

In discussing these conditions with IEMA personnel, they stated the payment vouchers and federal fund draws have historically been processed simultaneously; however, processing a voucher and creating a warrant has taken more than three business days during fiscal year 2009.

Response: IEMA accepts this finding

The Agency currently works to minimize the time between draws and payment. IEMA's current process is to submit vouchers to Shared Services where they are entered for payment. Once the vouchers are entered, grant fiscal staff submit a request for federal funds online. It then requires at most two days for the Treasurer to receive the funds and for the Comptroller to post to their appropriate fund. An additional two days are required for assembling schedules at Shared Services and delivering that information to the Comptroller. We will review our processes to identify opportunities for improvement. However, the Agency has no control over the length of time vouchers spend at the Office of the Comptroller. We will reach out to their office to determine if the timeframe can be shortened.

09-88. The auditors recommend IEMA follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.

Findings: IEMA did not follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property (equipment) records.

IEMA's internal control procedures to maintain accurate property records include a monthly reconciliation between expenditures for equipment recorded in their general ledger to equipment additions recorded in the property records. As noted during the audit, IEMA did not complete any of the monthly reconciliations during the year ended June 30, 2009. Subsequent to the audit, IEMA reconciled all twelve months and noted no differences between the expenditures for equipment recorded in their general ledger and equipment added to their property records.

In discussing these conditions with IEMA personnel, they stated the reconciliation was not completed due to staffing changes created by the Public Safety Shared Services Center.

Response: IEMA accepts this finding.

The Agency internal control procedures state that expenditures for equipment recorded in the general ledger will be reconciled monthly with equipment additions recorded in the property records. Prior to Executive Order 6 (2006) which created the Public Safety Shared Services Center (SS) those reconciliations were completed monthly. Per the executive order fixed assets were transferred to the SS at the Illinois Department of Corrections.

SS did not complete reconciliations for State fiscal year 2009 but procedures are in place to ensure that reconciliations occur in the future. The Agency will discuss with SS ways in which the process can be improved.

RECOMMENDATION 89
Illinois State Police

09-89. The auditors recommend State Police deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury. (Repeated-2008)

Findings: State Police did not deposit Homeland Security Cluster program funds of approximately $1.5 million received in advance of issuing warrants into 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.

Response: Concur. We will work with the State Treasurer's Office to make the Federal Projects Fund an interest-bearing account.

RECOMMENDATIONS 90-91
State Board of Elections

09-90. The auditors 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. (Repeated-2006)

Findings: SBOE is not performing on-site reviews of subrecipients receiving federal awards under the Help America Vote Act Requirements Payments (HAVA) program.

In discussing this condition with SBOE officials, they stated 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.

Response: Implemented.

09-91. The auditors 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; and**
- **following up on the subrecipient's implementation of its corrective action plan. (Repeated-2007)**

Findings: SBOE did not review OMB Circular A-133 audit reports for subrecipients of the Help America Vote Act Requirements Payments (HAVA) program.

In discussing this condition with SBOE officials, they stated that limited staffing resources have prohibited SBOE from implementing comprehensive OMB Circular A-133 desk review and follow up procedures.

Response: Implemented.

RECOMMENDATIONS 92-93
Department of Central Management Services

09-92. The auditors 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. (Repeated-2006)

Findings: DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87. Auditors 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 2006, 2007 and 2008. Upon further review, the fiscal year 2009 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 $9,961,000 and $5,098,000 as of June 30, 2009 for the CRF and SSRF, respectively.

Additionally, there were several instances wherein DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements. The majority of the differences identified represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items identified have not been associated with a specific billed service, auditors are unable to determine the impact of these items on the federal share of the excess fund balances.

In discussing these conditions with DCMS officials, they stated that their practices are compliant with A-87 guidelines.

Response: Excess Balances: The Department asserts that its excess balance adjustment practices **a**re compliant with OMB Circular A-87 guidelines.

The Department has long employed an ongoing process to evaluate allowable balances by service for its internal service funds. Our annual SWICAP Section II submission is the culmination of an ongoing annual process involving rate developments, revenue and expense projections, capturing and matching of costs and revenues by service center, and truing up revenues and expenses by service center and customer.

Further, the existence of excess balances is not a violation of A-87. The federal requirement is that excess balances be remedied. The Department asserts that its adjustment methods, Per A-87 Attachment C, G.4., which include negotiated settlements, are appropriate and allowable.

The Department does agree that adjustments should be made as timely as is feasible. DCMS continues to adjust rates annually to reduce exposure to excess balances. However, these annual adjustments cannot guarantee that excess balances will be entirely eliminated for all services in any given year, since rates and costs are projections. Billing credits, like cash refunds, require multiple years to apply, so the adjustment occurs no faster than a negotiated payback and requires significantly more up-front cash. Therefore, direct negotiated paybacks have always been, and will likely continue to be, a part of the federally provided and federally sanctioned remedy for excess balances.

The timeliness of direct paybacks is dependent on the federal review cycle. The paybacks are negotiated during the federal review of the annual SWICAP. The federal review cycle is not completed annually, and in some cases stretches out several years. The refunds, which are negotiated, are formally set through the federal letter of determination at the end of the review process.

In addition, the SWICAP Section I, as well as virtually all agency indirect cost rate proposals (ICRPs), are based on a two-year roll forward adjustment cycle, which recognizes the natural lag between year-end trued-up cost allocation and federal claiming. The over/under charges reported in Section II have similar FY timing limitations.

We also refer to the ASMB C-10 reference to making adjustments in the “next open fiscal period.” At the time our SWICAP Section II filing is completed, we are typically in the late third or early

fourth quarter of the new FY. The State's interpretation of the "next open fiscal period" is the next full fiscal year in which the State has the ability to adjust agency budgets to handle rate changes due to over/under billings.

Finally, the federal Dept of DHHS includes imputed interest in the payback calculations in recognition of, and as compensation for, any delay in remedying the excess balances. All excess balances for all outstanding FYs except FY09 have been remedied and approved by DHHS.

Reconciling Items: Two of the items were either recorded properly or have no federal impact:

Compensated Absences: Payroll costs are recorded in the fiscal year paid for federal reporting purposes. Per A-87, when a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

Inmate Commission Income: There is no federal impact as this cost center has no federal participation.

Regarding the other three items, the State concurs.

Auditors' Comment: *DCMS has acknowledged the existence of excess fund balances, but believes that it is not a violation of federal regulations. Specifically, they state that negotiated settlements are appropriate and allowable. However, we believe federal regulations require DCMS to adjust rates or remit excess fund balances back to the applicable federal programs on a timely basis. DCMS' past practice of protracted negotiations and waiting for its cognizant agency to "agree to a settlement" is inconsistent with federal regulations.*

Updated Response: Accepted and partially implemented. The Department negotiated paybacks with the federal DHHS to close out FY06-08 balances in April 2010. We significantly reduced FY09 balances through rates adjustments, and are in the process of negotiating FY09 results with the fed. The corrective action for this finding is an ongoing annual process involving both rates adjustments and negotiated settlements.

The Department is also adjusting accounting practices where feasible to reduce the total number of reconciling items and to document these items more accurately.

09-93. The auditors recommend DCMS implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs. (Repeated-2007)

Findings: DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds. It was noted by the auditors that 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 120 cash disbursements (totaling $4,583,603) from DCMS' internal service funds and found four of the disbursements tested (totaling $11,287) 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, as summarized in the table below. Total expenditures recorded in these funds approximated $473,121,534.

Fund		Description		Amount
SSRF		Travel to attend legislative audit committee meeting		$457
CRF		Lodging for public information officer to assist governor's office for preparation of state budget		$470
FMRF		Decoration of public facility – 2009 Christmas holiday decorations		$9,861
CRF		Printing of 2000 Illinois Century Network brochures for marketing		$499

In discussing these conditions with DCMS officials, they stated that these costs were allowable under A-87 guidelines.

Response: The Department asserts that all of the costs identified by the auditors which were subject to cost recovery were allowable under A-87 guidelines and were charged to proper funding sources. Specifically:

- The administrative travel item had been removed from the SWICAP as demonstrated to the auditors.

- The Public Information Office (PIO) is an established communications service billed through the CRF. Its activities are specifically allowable under A-87 item 1 page 15.

- Decoration of a state building falls under item 13 p. 25 in the opinion of the State.

- The Illinois Century Network (ICN) is a communications service billed through the CRF. The associated costs are allowable under A-87 item 1 page 15 and item 34 page 35.

Auditors' Comment: *As discussed above, we believe the costs identified in this finding are unallowable as they were not reasonable or pertain to the fund in which they were reordered. Regarding DCMS' response above:*

- *DCMS could not provide documentation the administrative travel item was removed from the SWICAP.*

- *Travel expenses incurred related to the preparation of the State budget by the PIO are administrative expenses which should be allocated to all appropriate funds.*

- *Holiday decorations are not a reasonable or necessary cost for the administration of federal programs. DCMS' response above suggests the cost is allowable under OMB Circular A-87, Attachment B, Item 13 (Employee morale, health, and welfare costs). This item states, "The costs of employee information publications, health, or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental units established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs will be equitably apportioned to all activities of the governmental unit. …" We do not believe holiday decorations are allowable under this section.*

- *The printing of the 2000 Illinois Century Network brochures appears to be an advertising cost, which we believe is unallowable under OMB Circular A-87. Specifically, OMB Circular A-87, Attachment B, item 1c, states "The only allowable advertising costs are those which are solely for 1) the recruitments of personnel required for the performance by the governmental unit of obligations arising under a Federal award; 2) the procurement of goods and services for the performance of a Federal award; 3) the disposal of scrap or surplus materials ….; and 4) other specific purposes necessary to meet the requirements of the Federal award."*

Updated Response: Implemented. The Department has taken action steps to minimize the inclusion of unallowable costs and will continue to:

- Allocate allowable costs supporting multiple funds across the benefiting funds.

- Identify and eliminate non allowable expenditures from the SWCAP.